OC-DA-123

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

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

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

Yo, Dennis Bechara Bravo (nombre del funcionario principal) Funcionario Principal de Comisiòn de los Puertos de Mayaguez (nombre de la entidad)

3138 (número de entidad) certifico a la Oficina del Contralor de Puerto Rico (Oficina) que relacionado con el año fiscal terminado al 30 de junio de 2022 :

1. Recibimos fondos públicos por $0 .
2. Efectuamos desembolsos de fondos federales por $0 . No aplica ☒.
3. Tenemos la obligación de cumplir con ☒ la *Ley 273-2003, Ley de Normas Contractuales sobre Independencia en las Auditorías de Entidades Gubernamentales*[2], según enmendada, y con ☐ el *Single Audit Act*. En cumplimiento de estos:

   a. El 30 de septiembre de 2022 formalizamos el contrato número 2023-000003 para realizar la auditoría de los ☒ Estados Financieros y/o el ☐ *Single Audit Report*.

   b. El 1 de diciembre de 2022 recibimos el *Informe de Auditoria* del 30 de junio de 2022 de los auditores externos.

   c. El 13 de diciembre de 2022 los auditores externos comparecieron para presentar el informe final y comunicar los hallazgos y las recomendaciones.

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

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

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

☐ El ____ de N/A _____ de _____ recibimos las cartas finales de recomendaciones (*Management Letters*) emitidas por los auditores externos el ____ de _____ de _____. El archivo electrónico, en formato **PDF**, de las mismas fue remitido a su Oficina el ____ de _____ de _____.

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

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

☐ Informes de auditorías emitidos en forma final

☒ Estados financieros auditados

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

☐ *Single Audit Report*

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

☐ Otros (especifique): _____

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

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

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

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

En Mayagüez, Puerto Rico, hoy 14 de noviembre de 2023

Firma del Funcionario Principal

COMMONWEALTH OF PUERTO RICO
MAYAGUEZ PORTS COMMISSION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021

MAYAGUEZ PORTS COMMISSION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

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CARLOS CARDONA
CERTIFIED PUBLIC ACCOUNTIG & CONSULTANT

Member of the Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mayagüez Ports Commission
#80 PR 3341
Terminal Building, Suite 104
Mayagüez, Puerto Rico 00682-5769

Opinion

I have audited the accompanying financial statements of the Mayagüez Ports Commission which comprise the statement of net position as of June 30, 2022 and 2021, and the related statements of revenues and expenses, and cash flows for the years then ended, and the related notes to financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mayaguez Ports Commission as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibility under those standards is further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. I am required to be independent of the Mayaguez Ports Commission and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. I believe that the audit evidence has obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

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

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In preparing financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mayaguez Ports Commission's ability to continue as a going concern with one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with the generally accepted auditing standards, I :

- 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 tests 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 Mayagüez Ports Commission'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mayaguez Ports Commission's ability to continue as going concern for a reasonable period of time.

I am 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.

Report on Other Legal and Regulatory Requirements

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries to the management regarding the methods of measurement and presentation of supplementary information. However, I did not audit this information and express no opinion on it.

Carlos Cardona, CPA

Añasco, Puerto Rico
December 1, 2022
License No. 3656; expiration date December 1st, 2025

The stamp number **2775257** of the Puerto Rico Society of CPA was adhered to the original.

Overview of the Financial Statements

The Management Discussion and Analysis provides a narrative overview and analysis of the Mayaguez Ports Commission's (the Ports Commission) financial activities for the fiscal years ended June 30, 2022 and June 30, 2021 and helps to focus the reader in the most significant financial issues and the changes showed in the accompanying financial statements. The discussion is intended to assist the readers in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in financial position. We encourage readers to consider the information contained in this discussion in conjunction with the Authority's financial statements.

Financial Statements Presentation

The Ports Commission is as self-revenue public corporation that commenced business operations on August 24, 2004, managed by a five-member Board of Commissioners. The Board of Commissioners is empowered with the authority to develop and manage the property and resources of the Port of Mayagüez to achieve the growth and upgrading of the Ports Commission's facilities and infrastructure. The Port of Mayagüez is viewed as an important governmental entity that would positively influence and encourage the economic improvement of an industrial zone surrounded the Port of Mayagüez. The Ports Commission's capacity includes the authority to acquire, sell, lease, and barter the Ports Commission's assets and facilities to improve, build and development its facilities. Actually, the Ports Commission is acting as a landlord of the Port's facilities generating revenues primarily through rent installments.

The Ports Commission maintains a proprietary fund, which reports transactions related to its business activities similar as do the private sector. As such, the Ports Commission presents only the statements required of enterprise funding, which include the statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows.

The statements of net position present information on all the Ports Commission's assets and deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The statements of revenue, expenses and changes in net position shows how the Ports Commission's net position changed during the fiscal year. The statements of cash flows represent cash and cash equivalent activity for the fiscal year resulting from operating, non-capital financing, capital financing and investing activities. Collectively, these financial statements provide an assessment of the overall financial condition of the Ports Commission.

Financial Highlights

The Statement of Net Position presents comparative information for the periods as of June 30, 2022 and 2021. The Statement of Net Position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Governments are encouraged to present the Statement of Net Position in a balance sheet similar format, but the Statement of Net Position should report the residual amount between assets plus deferred outflows of resources less liabilities and deferred inflows of resources.

In order to support general public readers, following it is defined the main elements of a Statement of Net Position: (a) assets are those resources with a present service capacity that the government entity presently owns and controls; (b) liabilities are present obligations which reduce the government's resources with little or no discretion to avoid; (c) deferred outflow of resources represent a consumption of net assets to a future reporting period, with a positive effect on net position, similar to an asset; (d) deferred inflow of resources represent an acquisition of net assets that are applicable to a future reporting period, with a negative effect on net position, similar to a liability. Increases and decreases in net positions will serve as a useful indicator of the worth or unstable financial position of the Ports Commission as a government corporative enterprise.

The Ports Commission uses cash basis method on daily and current operations; however, the basic financial statements are converted to a full accrual accounting basis. All the current year's revenues and expenses are accounted for and presented for both fiscal years ended June 30, 2022 and June 30, 2021. All changes in net position are disclosed as soon as the underlying event occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows for future fiscal periods.

The Statement of Cash Flows presents information about the cash receipts and cash disbursing of the Ports Commission during fiscal year. Also, it shows the effect on financial position from the cash and non-cash operating and capital, among other financing transactions. When used with related disclosures and information in the financial statements, the Statement of Cash Flows helps the readers to assess the Ports Commission's ability to generate net cash flows, to comply obligations as due, and to obtain external financing, when needed. Also, it provides information about where cash come from, how cash is used for and the change in cash balance during the reporting period.

Statement of Net Position

A condensed comparison of the PORTS Commission's Statement of Net Position as of June 30, 2022 and 2021 shown following provides for a brief analysis of the data. The Notes to the Financial Statements provide additional information to supplement this Management's Discussion and Analysis.

	2022	2021
Assets:		
Current assets	$ 683,554	$ 656,241
Non-current assets		
Capital assets, net	8,167,891	8,235,004
Non-current, assets	6,000	6,000
Total Non-current assets	8,173,891	8,241,004
Deferred outflows of resources	-	-
Total assets and deferred outflows	$ 8,857,445	$ 8,897,245
Liabilities:		
Current liabilities	$ 17,481	$ 18,251
Total liabilities	17,481	18,251
Deferred inflows of resources	175,000	175,000
Net Position:		
Net Investment in capital assets	8,167,891	8,235,004
Restricted	6,000	6,000
Unrestricted	491,073	462,990
Total net position	8,664,964	8,703,994
Total liabilities, deferred inflows and net position	$ 8,857,445	$ 8,897,245

Analysis of Net Position on June 30, 2022 and 2021

Overall results are:

- The Ports Commission's net position as of June 30, 2022 includes assets and deferred outflows of $8,857,445, liabilities and deferred inflows of $192,481 and a net position of $8,664,964.
- Current assets increased from previous year by $27,313, capital assets decreased by $67,113, while non-current assets had no variances.
- Current liabilities decreased from previous year in $770, while deferred inflows of resources had no variances.

- Net investment in capital assets decreased by $(67,113) and Total Net Position decreased in $(32,111).

Statement of Revenues and Expenses

A condensed Statement of Revenues and Expenses is following discussed.

	2022	2021	Change	% of Change
Revenues:				
Operating revenues	$ 196,038	$ 195,678	$ 360	0.2%
Non-operating revenues	-	-		
Total revenues	196,038	195,678	360	0.2%
Expenses:				
Total expenses, including depreciation	235,068	212,909	22,159	10.4%
Change in net position	$ (39,030)	$ (17,231)	$ (21,799)	126.5%

Analysis of Fiscal Years 2022 and 2021

Total Revenues increased by $360, representing a 0.2% of total revenues, and expenses increased in $22,159 equivalent to 10.4% more expenses from prior fiscal year. Expenses, including depreciation, exceeded revenues causing a negative change in net position of ($39,030) for the current period.

Significant Events During Fiscal Year 2022

- The Ports Commission continued with the trials against Holland Group Ports (Mayaguez) Investment, Inc. (HPGI) to recover amounts payable to the Ports Commission. A certiorari is under the evaluation of the Supreme Court of Puerto Rico.

- The Ports Commission is acting as a monitor to oversee the compliance with the plan for the improvement of the infrastructure and the development of businesses to the Port of Mayagüez, accordingly to the long-term agreement signed on November 1st, 2016 with Puerto Mayagüez Development, Inc (PMD). Phase I, which comprised the Terminal Building improvement, was completed during Fiscal Year 2021. The worldwide pandemic of COVID-19 put in hold the government and private sector activities: therefore, Phase II is delayed. During November 2021 the Ports Commission requested PMD the updating of the construction and development plan along with the financial plan while some roof and renovations started in the Customs Area.

Discussions have raised related of the viability of the project due the increase and shortage of construction materials and labor.

- The Ports Commission exercises the right to govern and update the tariff applicable to the multiple type of maritime operations and issued Supplement 2f to Handbook and Tariff No. 2.

- The Ports Commission was dealing with an audit conducted by Office of the Comptroller of Puerto Rico (OCPR) began in August 2021 and ended in June 2022. The audit encompasses the period from July 1, 2016 up to December 31, 2021. As of June 30, 2022, the Ports Commission was answering the management letter OCPR SII-3138-15566-CG-01, which comprises no critical findings that may need disclosures. After answering management letter, only one finding prevails, which is related to late filing of a report caused by wrong instructions received from the OCPR.

Revenue Highlights

The Ports Commission establishes the norms, regulations and tariffs to maritime operations and space rental applicable to the Ports of Mayagüez, which are encompassed in Handbook and Tariff No. 2, as amended. No direct revenues are obtained from the application of fees and charges of the Handbook and Tariff No. 2, as amended, however the Ports Commission retained the responsibility for ruling and approving any change to tariff, fees, charges, and norms.

Puerto Mayagüez Development, Inc is empowered through the long-term agreement, as the Port Operator, to administer and enforce the collection of the tariff, fees, and charges applicable to the port's tenants, occupants, and users of the Port's facilities.

During Fiscal Year 2022, the main source of revenue of the Ports Commission was obtained from the rent of the Lease and Development Agreement between Puerto Mayagüez Development, Inc and the Port of Mayaguez, as following detailed.

- **Operating Revenues**. The long-term Lease and Development Agreement of the Port of Mayagüez established rent installments with periodic increases. As of November 1st, 2021, the rent installments increased from $14,583.33 to $15,020.83, resulting in a 2.9% of revenue increases from prior year, which remains with no changes along Fiscal Year 2022. Operating revenues of $178,500 represent a 91% from total revenues.

- **Other Revenue**. Other Revenue of $17,538 is primarily obtained from interest earned on cash equivalent accounts and penalties imposed to rent installments for late and insufficient installment payments, equivalent to 9% of total revenue. A decrease of ($3,140) equivalent to (15.2%) from prior year is noted for Fiscal Year 2022.

Expense Highlights

Total expenses for the year ended June 30, 2022, net of depreciation expenses, are $167,955 showing an increase on expenses of $25,684 from Fiscal Year 2021. Following is a summary of expenses.

	2022	2021	Change
Interagency services, 13.7% of total expenses	$ 22,965	$ 18,129	$ 4,836
Professional services, 39.7% of total expenses	66,638	59,683	6,955
Operating expenses, 29.5% of total expenses	49,620	43,439	6,181
Commissioner's expenses, 17.1% of total expenses	28,732	20,840	7,892
Total expenses, net of depreciation expenses	$ 167,955	$ 142,091	$ 25,684

- Interagency services consisted of an employee assigned to work for the Port s Commission five days a week represents a 13.7% of total expenses. An increase of $4,836 is observed from previous fiscal year, because starting on second shift of October 2021, the Municipality of Mayagüez increased employees' work schedule from 6 hours/day to 7.5 hours/day; therefore, an increase on salaries and fringe benefits from prior year is obtained.

- Professional services expense is the major type of expense representing a 39.7% of total expense. This expense increased in $6,955 from previous year since government activity was slow down as a direct consequence of the Pandemic of COVID. Professional services include:
    - legal representation to the Ports Commission in the Supreme Court to pursue in the claim of expenses, uncollected revenue and penalties, among others, to HGPI.
    - support the Ports Commission to accomplish the Corrective Action Plan from prior Office of the Comptroller of Puerto Rico audits.
    - support the Ports Commission to manage the request for information for the audit in progress for the period of July 1st of 2016 up to December 31, 2021 of the Comptroller of Puerto Rico.
    - support to the Board of Commissioners in the execution of administrative and fiscal matters, as required by law.
    - oversee the achievement to the lease and development agreement goals.
    - hire annual audit services to prepare the Ports Commission financial statements in compliance to Law No. 10, and to meet with other by law and regulations requirements.

- Operating expenses were equivalent to 29.5% of total expenses. The operating expenses includes $11,754 of bad debts. Operating expenses net of Bad Debts is $37,866, which when compared to prior year a negative variance of ($5,573) is obtained, mainly from a reduction in communication lines' maintenance services, supplies and miscellaneous expenses.

- Commissioner's expenses are equivalent to 17.1% of total expense. An increase of $7,892 is obtained when compared with previous fiscal year. Two Commissioner's vacant position were filled in September 2021, causing an increase in payments of per diems and reimbursable expenses.

Capital Assets

On June 30, 2022 the Ports Commission's net assets are comprised of 896 feet long of waterfront land with a berth comprised of six adjacent sites of 76,466.52 square meters equivalent to 19.4552 "cuerdas" and a natural harbor of 3.8 miles, ranging from 24' to 30' deep. The Port's facilities consist of waterfront steel deck, a steel frame storage building of 12,643 square feet, open piers for trade goods in transit, parking lots and a Terminal Building for processing an average of 300 passengers.

As of June 30, 2021, capital improvements and renovations were accomplished as part of the Phase I of the development plan for the Ports of Mayagüez, as well as to mitigate the damages suffered by the Hurricane in the passenger reception and administrative office and restrooms. Near to the end of the Fiscal Year 2022, repairs on the roof and Customs passengers processing area were began.

The global COVID-19 pandemic restricted the normal operation of businesses; the governments enforced total or partial closures on both government and private enterprise activities, and prolonged on month-to-month basis the partial shutdowns that curbed the normal production of products and services. General uncertainty on people and the strict health and safety requirements imposed on businesses created a social and economic inactivity whose repercussions endures up to June 30, 2021, when governments began to observe statistics close to the acceptable level of vaccination (2/3 population). The reopening of the business sectors had been slowly begun, having some steps back during the process. Tourism sector refrained, conditioned and limited the startup of activities during the first quarter of Fiscal Year 2022, especially for cruise vessels and lodging. COVID-19 evolved from a pandemic to an endemic disease, providing release to all economic activity. However, the consumption of goods and products in stock during the pandemic caused to increase up to twice their price and created resistance in people to return to work. This has led to labor shortages and an increase in hourly pay. Pending construction projects are now not only behind schedule due to previous caused of

force majeure but also due to changes in the cost of the project and the shortage of both products and labor.

Port Security

The Port of Mayaguez is classified as a US Port of Entry; thus, the presence of federal and commonwealth agencies is enforced. Some of the regulatory and law enforcement agencies working at the Port of Mayaguez are the US Custom and Border Protection, the US Coast Guard, the Police of Puerto Rico, Emergency and Management Response (911), and Tax Revenue from the Department of Treasury.

No incidents related to the port security had been reported during Fiscal Year 2022.

SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON

Supplementary information consists of additional budgetary comparison and analysis as part of the Management Discussion and Analysis (MD&A).

The MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Ports Commission financial activities for the year ended June 30, 2022, based on the management's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that influence the Ports Commission's operations. Budget basis is not an integral part of the financial statements, however, adding budgetary data as part of the MD&A provides useful supplementary information to the reader to compare between the results obtained for the change in net position based on GAAP versus the compliance to budget basis requirements of the Ports Commission.

Budgetary basis accounting uses either a modified accrual basis or the cash plus encumbrances method. Modified accrual accounting combines accrual accounting and cash basis accounting. This means that expenditures, assets and liabilities are often recorded when they occur, but can also take place when physical cash is used as the basis for the transaction.

The Budgetary Comparison Schedule correlates includes:

- Original budget approved prior the beginning of the fiscal year, using a projection founded on prior years actual amounts and assumptions for next year that may change any prior year income or expense.
- Final budget at the end of the fiscal year. Original budget numbers are changing along the fiscal year accordingly assumptions are not realized as forecasted. The modification of the original budget, especially the accomplishment for revenues is important to limit expenses on time to avoid a deficit at the end of the year.

- Actual amounts are the closing fiscal year income collected and expenses plus encumbrances as of June 30, 2022.
- Variances between final budget and actual amounts show the surplus or shortage when estimates and results of collection and expenditures are compared.

BUDGETARY DATA

The Ports Commission annually adopts a balanced budget for all operating funds, except for certain restricted accounts of Proprietary Funds and Special Revenue Funds, if any, as required. Budgetary control is legally maintained at the fund level. On page 14 we present a Budgetary Comparison between the budget original amount, as approved by the Board of Commissioners prior to the beginning of any fiscal year, and the budget final amount, after adjusting or amending budget items appropriations according to needs and priorities along the fiscal year are occurred, and income expected is collected.

Since the budgetary basis differs from GAAP, actual amounts in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance the evaluation. Budget encompasses any type of income and disbursements, regardless how such income or disbursement was recorded under GAAP. Some variances that may be identified for an income or a disbursement recorded using the budget basis of accounting are because the register of assets and liabilities is omitted in budgetary accounting. Budgetary accounting norms are the following:

1. Income will consider current and prior year receipt of taxes, fees, charges and rents, among others, as part of the operational revenue.
2. Income will consider any account receivable receipt that is expected to be cleared during the budget year.
3. Income will consider any cash obtained through financial sources available, in a form of loan, donation, subsidies and federal or commonwealth grant awards, among others.
4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.
5. Disbursement will consider any expense in full when it is paid, regardless of if may result in a prepaid expense, unless:
    a. it is accrued as an encumbrance for future payment against the income of such fiscal year budget. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
    b. income has a reserved use, like for a capital project or a commitment; then, any future disbursement will be recorded under the fiscal year budget in which such funds were granted.

6. Disbursement will consider as an expense any liability (interest, principal) when it is paid, unless exists an encumbrance on a prior year (contracts).
7. Certain accrued liabilities and other debts are not included in the budgetary basis.

Following is a budgetary comparison for Fiscal Year 2022 and 2021 and a reconciliation between budget amounts and statement of revenues, expenses and change in net position.

Budgeted amount as forecasted – Original vs. Final

During the fiscal year initial budget was modified according to the forecasting had been accomplished and unforeseen events are known and priorities changed.

	Final budget versus actual amounts			
	Budgeted amounts as forecasted			Variance
	Initial Budget	Amended Budget	**Actual Amounts**	Actual amount less Final Budget
INCOME				
Operational revenue-LDA rent	$178,500	$178,500	**$178,063**	$ (437)
Other financial resources - A/R collections	48,023	50,465	**50,465**	0
Other revenues-Penalties & interest earned	0	0	**1,146**	1,146
Total income	226,523	228,965	**229,674**	709
EXPENDITURES				
Interagency services	18,023	22,965	**22,965**	0
Employee's allowance expenses	3,600	3,600	**3,600**	0
Commissioner's Per diems	7,560	7,560	**6,592**	(968)
Commissioners' Expenses	23,616	23,616	**22,140**	(1,476)
Travel	0	1,000	**938**	(62)
Professional services				
Administration services	39,600	39,600	**39,600**	0
Audit fees	4,000	7,300	**5,245**	(2,055)
Legal services	60,000	60,000	**21,793**	(38,207)
Insurance	30,000	27,500	**27,500**	0
Telephone	2,220	4,000	**3,766**	(234)
Office supplies	2,000	1,500	**0**	(1,500)
Non-Capital equipment	0	500	**500**	0
Miscellaneous	10,000	4,000	**1,562**	(2,438)
Total expenditures	200,619	203,141	**156,201**	(46,940)
Surplus or Insufficiency	$ 25,904	$ 25,824	**$ 73,473**	$ 47,649

Basis of variances of actual vs. amended budget

Amended budget for **income increased in $709** and **expenditures decreased in $46,940** for a positive net change **of $47,649**. The savings achieved of **$47,649** added to the reserve for non-classified expenses as part of the amended budget of **$25,824** allows the Port Commission to end with a surplus of **$73,473** as of June 30, 2022.

Income

- Increase of $709 in income is mostly result of interest earned on deposits.

Expenditures

Total decrease in actual expenditures vs amended budget of **($46,940)** is following detailed.

- No initial budget was assigned to Travel, but amended budget added $1,000 for such purpose. Expense incurred of $938 caused an economy of $62 for this expense.
- Commissioners per diems and expenses decreased in ($2,444), due to absences of Commissioners to ordinary meetings.
- Professional services did not consume the total amount for fees in agreements, causing an economy of $40,262; primarily for a reduction in legal services received.
- Initial budget for telephone expenses was increased from $2,220 to $4,000 due to special labor needed to expand telephone lines and internet to an additional office. Expenses incurred were ($234) under the amended budget amount.
- Office supplies show an economy of ($1,500). No purchase of office supplies was done during Fiscal Year 2022.
- Initial budget assignment for miscellaneous expenses was decreased from $10,000 to $6,000. Miscellaneous expenses, especially legal miscellaneous expenses, disbursed ($2,438) under the amended budget amount.

The **surplus of $73,473 obtained on budgetary basis** is a combined product of additional collections exceeding expectations and economies on goods and services acquired.

Reconciliation budgetary accounting vs GAAP

A reconciliation between budget basis to GAAP is following presented. Even though, the budgetary accounting results for Fiscal Year 2022 has a surplus of **$73,473**, in the statement of revenues and expenses, accordingly to GAAP, is obtained a negative change in **net position of ($39,030)**. Reconciling items as showing below includes reclassification of income resources

Source/Inflows of financial resources:	FY 2022	FY 2021 Restated
Actual amounts available from operations	$ 229,674	$ 259,432
Net increase (decrease) in receivables from operations	(33,636)	(65,754)
Total revenues as reported on the statement of revenues and expenditures	**$ 196,038**	**$ 195,678**
Uses/Outflows of financial resources:		
Actual amounts (budgetary basis) "total disbursements" from the budgetary comparison schedule	$ 156,201	$ 148,837
Differences on total disbursements – budget basis to GAAP		
Bad Debts	11,754	(6,746)
Depreciation expenses	67,113	64,072
Sub-total	78,867	70,818
Total expenditures as reported on the statement of revenues and expenditures	$ 235,068	$ 212,909
Changes in net position as reported on the statement of revenues and expenditures	$ (39,030)	$ (17,231)

Request for information

This report provides a general overview of the Ports Commission's fiscal position. The financial statements and related and the disclosures made in the notes to the financial statements, as well as any required supplementary information are presented in accordance with the accounting reporting standards known as "generally accepted accounting principles". Questions concerning to any of the information provided in this report or requests for additional financial information should be addressed to:

Mayagüez Ports Commission
#80 PR 3341, Suite 104
Mayaguez, Puerto Rico 00680-5769

MAYAGUEZ PORTS COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2022 AND 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 393,411	$ 320,989
Certificates of Deposit	201,699	201,418
Receivable, net of allowance accounts of $396,157 for 2022 and $384,403 for 2021	70,916	116,306
Prepaid insurance	17,528	17,528
Total current assets	683,554	656,241
Non-current assets:		
Capital assets, net of accumulated depreciation	8,167,891	8,235,004
Certificates of Deposited-Restricted	6,000	6,000
Total non-current assets	8,173,891	8,241,004
Total assets	8,857,445	8,897,245
Deferred outflows resources	-	-
Total assets and deferred outflows of resources	$ 8,857,445	$ 8,897,245
Liabilities and Net Position		
Current liabilities:		
Accounts payables	$ 17,481	$ 18,251
Total current liabilities	17,481	18,251
Deferred inflows of resources	175,000	175,000
Net position:		
Invested in capital assets, net of depreciation	8,167,891	8,235,004
Restricted	6,000	6,000
Unrestricted	491,073	462,990
Total net position	8,664,964	8,703,994
Total liabilities, deferred inflows of resources and net position	$ 8,857,445	$ 8,897,245

The accompanying notes are integral part of this statement.

MAYAGUEZ PORTS COMMISSION
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021

	2022	2021
Operating revenues:		
Rent of facilities	$ 178,500	$ 175,000
Other revenue	17,538	20,678
Total operating revenues	196,038	195,678
Operating expenses:		
Interagency services	22,965	18,129
Professional services	66,638	59,683
Communication services	3,766	6,444
Insurances	27,500	27,500
Materials and supplies	0	599
Commissioners per diems & expenses	28,732	20,840
Allowance expenses	3,600	3,600
Non-capital property	500	1,804
Bad Debts	11,754	0
Miscellaneous	2,500	3,492
Total operating expenses	167,955	142,091
Operating income (loss) before non-operating revenues (expenses)	28,083	53,587
Non-operating income revenues (expenses)		
Depreciation expense	(67,113)	(70,818)
Total non-operating revenue (expenses)	(67,113)	(70,818)
Changes in net position	$ (39,030)	$ (17,231)

The accompanying notes are integral part of this statement.

MAYAGUEZ PORTS COMMISSION
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2022 AND 2021

	Invested in Capital Assets	Restricted	Unrestricted	Total
Balance June 30, 2020	$ 8,299,076	$ 6,000	$ 416,149	$ 8,721,225
Addition	6,746	0	(6,746)	0
Changes in net position	(70,818)	0	53,587	(17,231)
Balance June 30, 2021	8,235,004	6,000	462,990	8,703,994
Changes in net position	(67,113)	0	28,083	(39,030)
Balance June 30, 2022	$8,167,891	$6,000	$491,073	$8,664,964

The accompanying notes are integral part of this statement.

MAYAGUEZ PORTS COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Cash flow from operating activities:		
Changes in net position	$ (39,030)	$ (17,231)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	67,113	70,818
Bad Debts	11,754	0
Decrease (increase) in accounts receivables	33,636	65,375
(Decrease) increase in accounts payable	(770)	(520)
Total adjustments	111,733	135,673
Net cash provided (used) in operating activities	72,703	118,442
Cash flows from investing activities:		
Addition of property	0	(6,746)
Increase in certificate of deposit	(281)	(999)
Net cash used by investing activities	(281)	(7,745)
Net (decrease) increase in cash and equivalents	72,422	110,697
Cash and cash equivalents, beginning of the year	320,989	210,292
Cash and cash equivalents, end of the year	$ 393,411	$ 320,989
Summary for cash and cash equivalents:		
Operational account		
Operational account	$ 392,911	$ 320,489
Petty cash	500	500
Total for cash and cash equivalents	$ 393,411	$ 320,989

The accompanying notes are integral part of this statement.

NOTE 1 – Summary of Significant Accounting Policies

a. REPORTING ENTITY

The Ports Commission of Mayagüez is a public corporation created and governed by Act No. 10 of May 18, 1959, as amended, and implemented by Covenant AP 04-05(4)-033 on July 23, 2004 between the first party: the Governor of the Commonwealth of Puerto Rico and the Executive Director of the Puerto Rico Ports Authority, and the second party: the Mayor of the Municipality of Mayagüez and the President of the Board of Commissioners of the Ports Commission of Mayagüez. The Ports Authority transferred land, buildings, equipment, and property within the Ports of Mayagüez premises, net of any related liability. The Ports Commission was created to own and operate marine Ports facilities in Mayagüez, Puerto Rico, as well as for managing and assuming their assets and liabilities of the Ports Commission. Starting on August 23, 2004, the Ports Commission initiated the administration and operations of the Port of Mayagüez, after the transferred of the facilities on July 23, 2004.

The Ports Commission is governed by a five-member board, who are appointed by the Mayor of the City of Mayagüez. At the inception date of the Board of Commissioners, the Commissioners elective period was valid from 1 through 5 years; furtherly, the Commissioners are appointed for a five years' term. The Board of Commissioners is invested with all the powers and privileges under Act No. 10, as amended, but not limited to operate, construct and maintain wharves and piers; to buy additional facilities and to rent the port's facilities; to incur debt or issue bonds; and to establish tariff, fees and charges.

The Ports Commission is an independent component which financial statements include all funds controlled by the Ports commission or which are dependent on the Authority. No other agencies or government organizations have been included in the Ports Commission's financial statements.

b. BASIC FINANCIAL STATEMENTS

The Ports Commission is considered a special purpose government engaged in a single business-type activity. Business-type activities are those activities primarily supported by user fees and charges. The Ports Commission maintains a proprietary fund, which reports transactions related to activities like those found in the private sector. As such, the Ports Commission presents only the statements required of enterprise funds, which include the statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows, in accordance with generally accepted accounting principles, as pronounced by the Governmental Accounting Standard Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other*

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. BASIC FINANCIAL STATEMENTS – (Continuation)

Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities.*

Proprietary funds distinguish operating revenues and expenses from non-operating revenue and expenses. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operation. The principal operating revenues for the Ports Commission's proprietary fund are the rents installments from the lease and development agreement of the port facilities. Operating expenses include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

The statement of net position presents the residual difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as the net position. Net position is reported in three broad components, as applicable – net investment in capital assets; restricted; and unrestricted. Under the all-inclusive approach to presenting the changes in net position, all Ports revenues, including capital contributions, are reported in the statement of revenues, expenses and changes in net

Port Commission's financial statements changed its presentation to comply with GASB 63 and 65. There are not identified assets classified as deferred outflows of resources, but a deposit of the long-term agreement is classified as deferred inflow of resources.

Net assets are now referred as net position, which composition is invested in capital assets, net of related debt, restricted and unrestricted asset's components. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and debt issuance costs associated with long-term debt and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at end of year, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. BASIC FINANCIAL STATEMENTS – (Continuation)

- Restricted – This component of net assets consists of external constraints placed on net assets used by creditors (such as through debt covenants), grantors, contributors, commitments or laws or regulations of other governments or constraints imposed by law through constitutional provisions of enabling legislation.

- Unrestricted net assets – The component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

c. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Ports Commission's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue or capital contributions when all eligibility requirements imposed by the provider are met.

Operating revenues of the Ports Commission include revenues from facility operating leases, which are recognized over the term of the lease agreements. All other revenues, such as fees from wharfage, throughput, and dockage, are recognized as services if are provided by the Ports Commission. However, at this moment revenues from services directly earned as part of the direct operation of the port services are collected by the Port's operator, as part of the terms of the lease and development agreement.

d. BUDGETING PROCEDURES

The Ports Commission has established the following budgetary procedures include:

- Prior to July 1 of each year, the Ports Commission shall prepare a budget based on known facts to forecast revenues and expenses for the subsequent fiscal year which will be approved by the Board of Commissioners.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- The Port Commission may approve increase or decrease any line item of expenses accordingly to revenue realization whenever has a variance over 10%, for which is not needed to require approval from the Board of Commissioners. Expenses not approved in the budget may request the approval of the Commissioners in ordinary meetings, which will be recorded as part of the minutes.

e. BUDGETING PROCEDURES – (Continuation)

- New line items of expenses may be approved based on: (i) economies on existing line items, (ii) balance on reserve for non-classified expenses, (iii) extraordinary revenues during a fiscal period upon submission to the Board of Commission for such approval.

f. NEW PRONOUNCEMENTS NOT YET ADOPTED

- GASB Statement No. 87, *Leases* was issued in June 2017. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities that previously were classified as inflows of resources or outflows of resources based upon 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. The Statement also includes an exception for short-term leases and exceptions for contracts that transfer ownership, leases of assets that are investments and certain regulated leases. The implementation of GASB 87 **will have no impact on the financial statements of the Ports Commission.**

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the fiscal year ending June 30, 2022. The requirements of this Statement will improve financial reporting by providing users of financial statements to: (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) simplify accounting for interest cost incurred before the end of a construction period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. **Actually, GASB 89 has no impact on the financial statements of the Ports Commission.**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e. NEW PRONOUNCEMENTS NOT YET ADOPTED – (Continuation)

- GASB Statement No. 91, *Conduit Debt Obligations* was issued in May 2019, and will be effective for the Ports Commission in fiscal year 2022. 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. **Actually, GASB 91 has no impact on the financial statements of the Ports Commission.**

- GASB Statement No. 92, *Omnibus 2020*, effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments. The other requirements will be effective for the fiscal year ending June 30, 2022.

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)*, effective for the fiscal year ending June 30, 2023. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital 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 Ports Commission's management expect this GASB may have a significant impact on its the financial statements.

The accompanying notes are integral part of this statement.

NOTE 1 – Summary of Significant Accounting Policies

f. NEW PRONOUNCEMENTS NOT YET ADOPTED – (Continuation)

- GASB Statement No. 96, *Subscription –Based Information Technology Arrangements* was issued in May 2020 and will be effective for the Authority in fiscal year 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users.

  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. Management is currently evaluating the impact of this standard to the Port Commission's financial statements.

- 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 was issued in June 2020. Although certain provisions of this statement are effective immediately, the provisions likely to impact the Ports Commission will be effective in fiscal year 2022. The primary objectives of this Statement are to: (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Ports Commission does not expect this to have any impact on the financial statements of the Ports Commission, since the Ports Commission does not have or participate of deferred compensation plans.

NOTE 2 – MANAGEMENT PLANS

A 30-year long-term lease agreement was signed the 1st of November of 2016 with Puerto Mayagüez Development, Inc, a domestic limited liability corporation created for the whole and the only purpose of developing the Port of Mayagüez's fixed assets, administering and operating the port's facilities, as well as to support the development of added value business.

The vision for the development of Puerto Mayagüez Development, Inc included improvement to the piers, passenger Terminal, the addition of building space dedicated to new business activities, and the marketing of the Port of Mayagüez as a new cruise destination in the Caribbean. Plans to create new ferry routes in the Caribbean are also envisioned. Talks with Balearia Cruise Lines to discuss new routes from Mayagüez to Dominican Republic for ferry passengers through Punta Cana and ferry cargo using any other ports, like San Pedro de Macoris, were put in hold because of the global business interruption caused by the Pandemic COVI-19. Puerto Mayagüez Development, Inc has completed Phase I, comprised of improvement and expansion of the Terminal of Passengers during fiscal 2020-21.

Phase II had been also jeopardized by the nature events which required the reevaluation of the construction codes that may consider, as part of the wharf design, the strong swell caused by a hurricane force and the swinging of earthquake movements. More recently, the Ports Commission is requesting to Puerto Mayaguez Development, Inc the restatement of the continuity of the Phase II, of the marketing plans, and the economic viability to continue the project.

NOTE 3 – CASH AND CERTIFICATES OF DEPOSIT

The Ports Commission maintains a government check and saving account at Banco Popular de Puerto Rico for the deposit and disbursing of the Ports Commission revenues and expenses. A variable interest rate is paid over the saving portion of the account.

As of June 30, 2022, Cash and cash equivalents are detailed as follows:

Operational Account Balance	$392,411
Petty Cash (Cash on hand)	500
Certificates of Deposits-nonrestrictive	201,699
Total	$595,110

At the end of the Fiscal Year ended June 30, 2022, the Ports Commission kept short-term certificates of deposit in the Banco Popular de Puerto Rico. Concentration of risk of loss is attributed to have certificates of deposit and current account in a single bank. The FDIC guarantee up to $250,000.

The accompanying notes are integral part of this statement.

NOTE 4 – RECEIVABLES

The accounts receivable as of June 30, 2022 and 2021 are the following:

	2022	2021
HGPI	$ 384,403	$ 384,403
Municipality of Mayagüez	46,883	97,348
Puerto Mayagüez Development	35,787	18,958
Total	467,073	500,709
Allowance for doubtful accounts	(396,157)	(384,403)
Accounts Receivable as of June 30	$ 70,916	$ 116,306

Account Receivable as of June 30, 2022, net of allowance of doubtful accounts, are comprised of accrued invoices of $70,916. The amount of $46,883 is an account receivable issued to the Municipality of Mayagüez, in accordance with the Cooperative Agreement for the Administration and Operation of the Port of Mayaguez signed between both entities, which provides for the full reimbursement of the Ports Commission's expenses in lieu of rent. These expenses include the Board of Commissioners' ordinary expenses incurred for accomplishing their duties and responsibilities, including communication expenses, per diems, allowances, and professional services, among others for the period of October 2014 through October 31, 2016. Starting Fiscal Year 2017, the Ports Commission is recording a credit, in the same amount of any payment or the value of any service given by the Municipality of Mayagüez to the Ports Commission, against the account receivable balance as of June 30 of every fiscal year until the account be offset. The credit recorded this fiscal year to reduce aged receivable is equal to $50,465.

The amount of $35,787 is an accrued balance owed by Puerto Mayagüez Development, Inc as June 30, 2022 of rent installment, accrued penalties and late charges imposed along the fiscal year, in accordance with the Lease and Development Agreement. From this accrued balance $11,754 is reserved as a doubtful account as of June 30, 2022.

Allowance for doubtful accounts was recorded on previous years to off-set accounts receivable of $384,403 owed by HGPI related to unpaid balance for year-end minimum rent fee and $11,754 from aged receivable on penalties and fines imposed to PMD applicable to the period of April to December 2021. From the fifth to the tenth year of the long-term agreement signed with HGPI, the minimum year rent fee raised from $110,000 to $250,000. Unpaid balances for the periods May 1st, 2012 to April 30th, 2013 and May 1st, 2013 to April 30th, 2014 were $176,401 (including penalties) and $208,002, respectively. The long-term lease agreement with HGPI was terminated on May 19, 2014 as ordered by the First Instance Court of Mayagüez. Its collection is uncertain at this point, even are in dispute in federal and commonwealth courts.

The accompanying notes are integral part of this statement.

NOTE 5 – PREPAID EXPENSES

The Municipality of Mayagüez acquired the Director and Officers Insurance for the Ports Commission at a cost of $27,500. The Ports Commission is reimbursing the actual cost of the insurance to the Municipality of Mayagüez through a credit to the Municipality of Mayaguez's account receivable balance. The insurance's term is valid from February 20, 2022 through February 19, 2023. Consequently, a prepaid expense of $17,528 is recorded to recognize the share for Directors and Official Insurance applicable to Fiscal Year 2022-2023.

NOTE 6 – OTHER ASSETS

The Municipality of Mayagüez issued Local Order No. 4, Series 2007-2008 to provide, to any cruise vessel docked the Ports of Mayagüez, a monetary incentive of $2,000 per call or visit. The Local Order No. 4 requires to the Ports Commission, as the custodian of the funds advanced to the Commission for such purposes, to submit a full report to the Municipality of Mayagüez detailing total cruise incentives given during the current fiscal year ended and the amount in balance carry forward to future fiscal years.

As of June 30, 2022 and 2021, the Ports Commission maintains a Cruise Incentive Fund balance for $6,000, which is set aside in a short-term Certificates of Deposit. No additional advances for this purpose were given to the Ports Commission during Fiscal Year 2021-22

NOTE 7 – CAPITAL ASSETS

The Ports of Mayagüez facilities (land, buildings, wharfs) and most of the property in use are stated based on an appraisal done in year 2002, as part as of the procedures followed to transfer the Port's facilities from the PR Ports Authority to the Ports Commission. Capital improvement, furniture, machinery and equipment acquired since Fiscal Year 2004-05 is recorded based on its acquisition costs. Capital assets are defined as assets with an acquisition cost of $500 or more and an estimated useful life of at least one year. Normal costs of repair and maintenance that do not add value to the assets or do not materially extend assets live are not capitalized. However, the costs of replacement, additions or improvements to assets which extend their useful live are generally capitalized, as well as any costs directly related to acquire or construct an asset is added to the original costs (example: interest, freight, shipping, fees, permits, among others).

NOTE 7 – CAPITAL ASSETS (Continuation)

Depreciation is calculated using straight line method during the estimated useful lives, as applicable. The Ports Commission capitalization policy establishes the classification for each type of assets and the useful live term assigned. Following is a summary for the calculation of depreciation based on the general classification for useful lives, as applied for the periods ended as of June 30, 2022 and June 30, 2021.

	Useful Life	2022 Value	2021 Value
Land		$ 6,900,000	$ 6,900,000
Land Improvements	10 – 30	812,980	812,980
Building Improvements	10 – 30	1,880,000	1,880,000
Wharf Improvements	15 – 40	473,000	473,000
Construction in progress		500,000	500,000
Furniture, machinery and equipment	3 – 10	28,637	28,637
Total		10,594,617	10,594,617
Less: accumulated depreciation		(2,426,726)	(2,359,613)
Total		$ 8,167,891	$ 8,235,004

The application of GASB 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that an asset is considered impaired when its service utility has significantly declined within the limits of its useful live. Management shall determine to withdraw the asset for property damaged, broken or obsoleted, or to decrease the value at the lower value for those Impaired capital assets which utility or functionality are not correlated its book value. Annually, the Ports Commission takes physical inventory to determined impairment loss, but no impairment adjustments were needed for current fiscal year.

Construction in progress consists of 16 bollards and 16 fenders for supporting weight of 150 ton-vessels acquired by the Ports Commission for wharf improvement. The installation of bollards and fenders requires the restoration of the wharf's waterfront face, driving piles for bollards, and the renovation of the bulkhead foundation. Phase II of the master plan comprises the bulkhead improvement. No capital contributions from federal, commonwealth or local funds were available during fiscal years ended June 30, 2022 and June 30, 2021 for the construction or acquisition of capital assets.

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable for the amount $17,481 consisted of goods and services acquired as of June 30, 2022, as follows.

Professional services	$16,785
Telephone expenses	477
Income Tax Withholding as June 30, 2022	219
Total	$17,481

The accompanying notes are integral part of this statement.

NOTE 10 – REVENUES - Operating revenues

Revenues earned during Fiscal Year 2022 are following detailed:

- **INSTALLMENTS.** Puerto Mayagüez Development, Inc entered into a long-term Lease and Development Agreement with Puerto Mayaguez Development, Inc (PMD) for a 30-year term. The scope of the agreement is to provide an integrated infrastructure development, operation, administration, and financing solution for a cruise terminal, which included touristic and economic elements with multiple commercial offerings. The lease agreement establishes the fixed per year installments with periodic increases, plus addition to basic rental installment, when applicable.

  Based on rental installment schedule, rents earned during Fiscal Year 2022 were equal to $178,500.

- **Other Revenues** - Interest earned on cash accounts and certificate of deposits is also added as Other Operating Revenue, as well as penalties and fines imposed to Puerto Mayaguez Development, Inc, accordingly to the Lease and Development Agreement terms.

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Ports Commission had no employees recruited during Fiscal Year 2022 neither is expected to recruit any employee in a near future. The Municipality of Mayagüez provided clerical support to the Board of Commissioners. The compensation and fringe benefits for the staff consigned to the Ports Commission is the sole responsibility of the Municipality of Mayagüez as the legal employer.

The Ports Commission has approved the Guidelines for Personnel which include regulations for recruitment, compensation and benefits applicable to Ports Commission's employees. These guidelines, approved on November 17, 2006, encompass the methodology for recruitment, employee record-keeping, working hours, special benefits with and without pay such as Holidays, compensatory time, special licenses, retirement plans, health care benefits and wellness incentive plans for the accrual of sick and vacation leaves, among other matters. Also, the Ports Commission has approved a Job Classification and Retribution Plan, but no has no immediate plans for recruiting employees due to budgetary constraints.

Since the Port of Mayagüez has been administered by a private operator, there is no need to have in place an administrative organization. The Ports Commission has no annual appropriations from the Commonwealth of Puerto Rico that may support and ensure a recurring remuneration of salaries and fringe benefits for an administration structure.

The accompanying notes are integral part of this statement.

NOTE 12- COMMITMENTS, LITIGATION AND CONTINGENCIES (Continuation)

Insurances

The Ports Commission is required to hold insurances to cover risk of Director and Officers. Puerto Mayagüez Development Inc, as the Ports' operator, is required to acquire at its own cost other insurances needed to the port's operation, such as public responsibility, property, and maritime liability, in which the Ports Commission must be an additional insured.

The Municipality of Mayagüez provides worker's compensation insurance coverage to the Municipal's employees temporarily assigned to work in the administration and operation of the Ports facilities under for the Board of Commissioners supervision.

Litigations

Litigations and claims were still pending as of June 30, 2022. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Ports Commission.

The status of the actual litigation between the Ports Commission and HGPI is the following:

(1) **ISCI 2013-00800/KLAN201400825/Civil No. 14-1446(CCC)** Pending compliance with the order issued by the PR First Instance Court to HGPI for the payment of minimum rent fee applicable to April 30, 2013 of $167,658.81 and to produce all information regarding its assets and corporate records, among others. While a Ports Commission's motion to show cause was under the trial court's consideration, on November 12, 2015, HGPI filed for voluntary Bankruptcy under Chapter 7. A determination of any potential exposure or loss and/or likelihood of unfavorable outcome is subject to amounts recovered from the HGPI's estate in the bankruptcy case and any potential recovery in the civil action filed by MPC against directors, shareholders, and officials of HGPI.

(2) **15-08986 BKT Chapter 7/Adversary Proceeding 16-00227**. On November 12, 2015, HCPI filed for voluntary bankruptcy under Chapter 7 of the Bankruptcy Code. In its petition, HGPI reported assets estimated at $129,047 and liabilities estimated at $2,498,858. The estimated amount for liabilities did not include the Ports Commission claim, although the Ports Commissions is named as a creditor for the Judgment pending in cases ICSI20100182 and ISCI21300800. The $4,000,000 transfer was also not reported in the bankruptcy schedules.

NOTE 12- COMMITMENTS, LITIGATION AND CONTINGENCIES (Continuation)

On May 27, 2020, the Trustee filed its final report, showing the disposition of all property. Administrative fees, administrative expenses and all priority claims were paid, leaving nothing to pay unsecured creditors. Therefore, no distribution was made to the Ports Commission. The Court approved the Trustee's final report on June 22, 2020. No distribution will be received in the bankruptcy case. However, other avenues of recovery are being pursuit in the local court. The Bankruptcy Court authorized the Trustee's final report, in which there is no distribution to unsecured creditors, including the Ports Commission. To date, there has been no material adverse effect thereon.

(3) **BY2019CV01985/KLAN 2020200355**. On April 17, 2019, the Ports Commission filed a complaint against HGPI's shareholders, director and officials, spouses and respective conjugal partnerships, and affiliates for fraud against creditors, damages against bad faith purchaser, avoidance of transfer for redemption of preferred shares and collection of monies for the unpaid judgement. It is pending outcomes from the Court, but currently, there is no potential exposure or loss for the Ports Commission. On December 13, 2019, the Court entered judgement dismissing the complaint. The Ports Commission filed a motion for reconsideration, which was denied by the court on February 12, 2020. The Ports Commission filed an appeal on July 8, 2020, once the Courts opened after March 15, 2020 lockdown ordered by the Governor of Puerto Rico. Defendants filed their brief in opposition. On February 5, 2021, the Court of Appeals entered judgment affirming the trial court's judgment dismissing the complaints. The Ports Commissions files a writ of Certiorari before the Supreme court of Puerto Rico on April 9, 2021. Defendants filed an opposition thereof. On June 15, 2021, the Supreme Court ordered the parties to submit their briefs, which were submitted by each party, and the case has been submitted and is still pending resolution by the Supreme Court of Puerto Rico. The matter will be contested vigorously.

At this time, there is no potential exposure or loss for the Ports Commission since it is a plaintiff in the case and counterclaims have been made by defendants to date. As to the probability and/or likelihood of unfavorable outcome in the case, which pertains solely to the monies which the Ports Commission may recover from defendants, the Ports Commission expects to prevail in its claims against defendants. Regardless of whether the Ports Commission prevails in this matter, management does expect that the ultimate outcome of this matter will have a material adverse effect on the Ports Commission, based on available information at this time.

Environment mitigation

The Ports Commission has no pending environment situations or pollution issues that require a mitigation plan. GASB No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses accounting and financial reporting principles for providing remediation obligations to address current or potential detrimental effects of pollution.

The Ports Commission does not have any reserve to cover contingency exposures or remediates the occurrence of any environment situation. Instead of, the Ports users (vessel pilots, vessel owners or operators, and maritime or business customers) are required to have insurance coverage endorsed to the Ports Commission to cover any damage, including pollution or contamination. Also, insurances acquired by Puerto Mayagüez Development (PMD) must include environment pollution exposures.

The Ports of Mayagüez, through PMD, complies with EPA environmental certifications, having an approved Certificate of Adequacy and the EPA Certificate of Water Discharging.

Office of the Comptroller of Puerto Rico

The Office of the Comptroller of Puerto Rico an audit report M-20-04 August 13, 2013 to June 30, 2016. Corrective Action Plan was accomplished as of June 30, 2020, but a follow-up is still in process from the Office of the Comptroller of Puerto Rico.

NOTE 13 - SUBSEQUENT EVENTS

The ASC 855 establishes the general standards for accounting and disclosure of events that took place after the date of the statements of activities, but before the date of emission of the financial statements. It establishes the period, after the date of the statement of activity during which the Commission management should evaluate events or transactions that could have happened and would be required to be registered or disclosed in the financial statements; the circumstances in which the association should recognize and disclose these events; and the kind of disclosure that should be offered for events that took place after the date of the statement of activity. In accordance with the ASC 855 the Mayagüez Ports Commission evaluated subsequent events until December 1, 2022, date in which the financial statements were almost ready to be issued and disclose the following:

- During August 2021 through June 30, 2022, the Office of the Comptroller of Puerto Rico (OCPR) accomplished an audit for the period of July 1st, 2016 to December 31, 2021. On November 3, 2022, a Preliminary Audit Report was issued for final comments the Ports Commission management, including any documentation or evidence that may eliminate any finding reported. Preliminary Audit Report only

reported on administrative finding related to late submission of two reports to the OCPR and some special comments following-up previous report situations. The Ports Commission must has been submitted an answer to the report in or before December 5, 2022.

- On July 14, 2022, the Ports Commission issued a letter to Puerto Mayaguez Development, Inc notifying the beginning of an informal dispute resolution according to Section 28.2 of the Lease and Development Agreement.

NOTE 14 – CONCENTRATION RISK

The Ports Commission has a lease and development agreement for all the Ports facilities to Puerto Mayagüez Development, Inc, as explained in Note 10, being this the only source of revenue to the Ports Commission.

The accompanying notes are integral part of this statement.