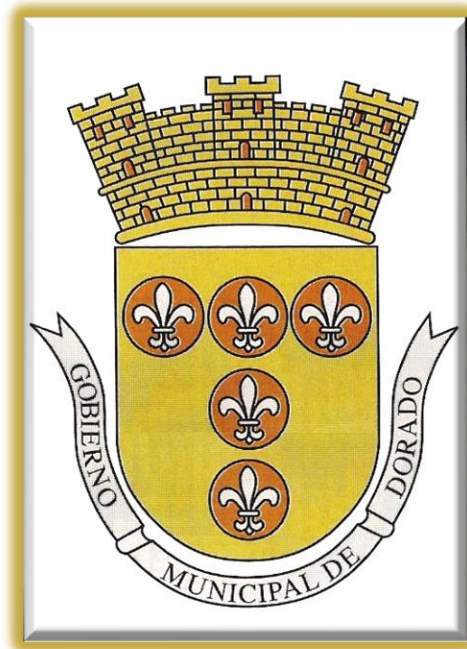

COMMONWEALTH OF PUERTO RICO

AUTONOMOUS MUNICIPALITY OF DORADO

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

For the Fiscal Year Ended June 30, 2023



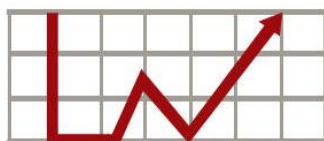
Autonomous Municipality of Dorado
P.O. Box 588, Dorado, Puerto Rico 00646
Hon. Carlos A. López Rivera

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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
Autonomous Municipality of Dorado
Dorado, Puerto Rico

Report on the Audit of the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado**, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the **Autonomous Municipality of Dorado's** basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit

Governmental Activities
Business-type Activities
General Fund
Special Revenue Fund-Head Start Program
Special Revenue Fund-Other Federal Grants
American Rescue Plan Act Fund
Disaster Grants Fund
Debt Service Fund
Commercial Pavilion Rafael Hernández Colón
Aggregate Remaining Fund Information

Type of Opinion

Qualified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
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 **Autonomous Municipality of Dorado's**, as of June 30, 2023, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Unmodified Opinions on the Business-type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the **Autonomous Municipality of Dorado's**, Puerto Rico, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof 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 "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the **Autonomous Municipality of Dorado's**, 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 Employees' Retirement System (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, 2023. 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 does 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 Employees' Retirement System (ERS) has not provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2022, (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2023. As a result, amounts 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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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis-of Matter

Restatement of Prior Year Financial Statements

As discussed in **Note 24**, the 2022 basic financial statements have been restated to adjust the Net Position in the long-term debt amounts of advances from USDA Community Facilities Loan. Also, the 2022 basic financial statements' Fund Balances have been restated to reflect certain reclassifications between funds. Our opinions are 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 **Autonomous Municipality of Dorado'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 auditor's 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 **Autonomous Municipality of Dorado's** internal control. Accordingly, no such opinion is expressed.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 **Autonomous Municipality of Dorado'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 did not disclose from PRGERS the historical pension information and the applicable disclosures and required supplementary information, as stated in **GASB Statement No. 73** and **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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **6** through **19** and **92** 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 **Autonomous Municipality of Dorado's** basic financial statements. The accompanying financial data schedule and Schedule of Expenditures of Federal Awards, as required by the *U.S. Department of Housing and Urban Development* and by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, respectively, are presented for



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Supplementary Information (continued)

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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial data schedule and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2024, on our consideration of the **Autonomous Municipality of Dorado's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2024

Stamp No. E537150 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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López-Vega, CPA, PSC

MANAGEMENT'S DISCUSSION AND ANALYSIS

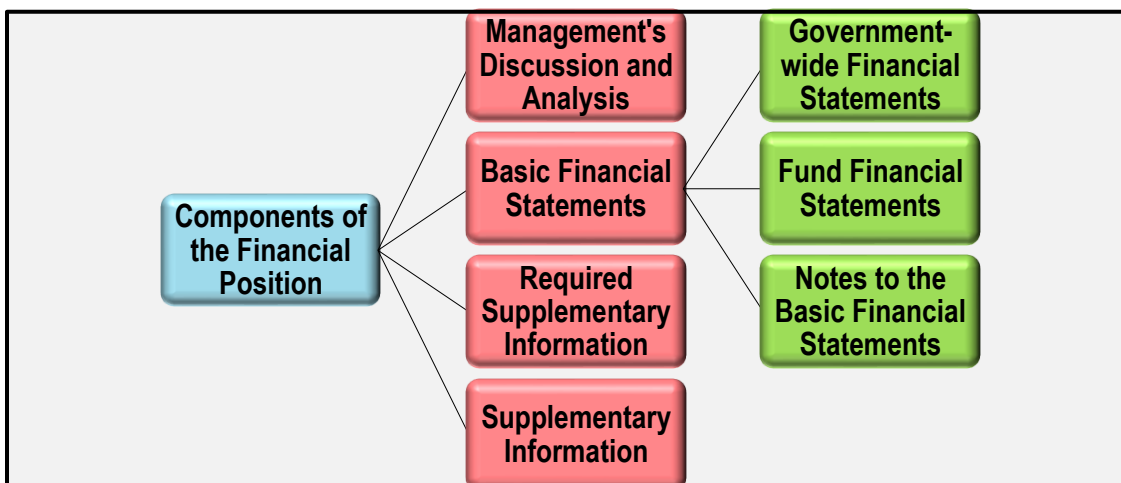
The discussion and analysis of the **Autonomous Municipality of Dorado's** (the Municipality) financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2023. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality's governmental activities, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2023 by \$158,196,676 (net position), an increase of 6% in comparison with 2022, as restated. Of this amount, the Municipality presented an unrestricted net position (deficit) of (\$4,246,691).
- Revenues increased by 3% and expenses increased 32% when compared with fiscal year 2022, as restated. Net position increased \$8,324,456 in 2023.
- A negative net change in the fund balances of the Municipality's governmental funds of (\$3,072,813) in the fiscal year 2023 resulted in reported ending fund balances of \$30,181,428.
- For the fiscal year 2023, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$3,148,313. The unassigned fund balance amounts to \$3,588,083 for a decrease of 52% as compared to prior year 2022.
- The net investment in capital assets in governmental activities as of June 30, 2023, was \$133,570,288.
- Long-term debt (total primary government) increased to \$48,258,918, or approximately 3% compared to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$8,997,144.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

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

Governmental Activities: The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

Business-type Activities: Business-type activities charge fees to finance the costs of their activities. The activities of *Commercial Pavilion Rafael Hernández Colón*, (the only business-type activity) are included here.

- **Fund Financial Statements**

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

Governmental Funds: The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

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

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

- **Notes to basic financial statements**

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

- **Required supplementary information**

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund. Management decided to omit the required supplementary information in accordance with **GASB Statement No. 73 and 75** as further explained in **Note 18** and **Note 19** of the basic financial statements.

- **Supplementary information**

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality. Also, the supplementary information also includes a Schedule of Expenditures of Federal Awards that details the amounts expended in each of the Municipality's federal programs during the fiscal year.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

The following table presents a summary of the Statements of Net Position as of June 30, 2023, and 2022:

TABLE 1

<i>Summary Statement of Net Position</i>						
<i>As of June 30,</i>						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022, as restated	2023	2022	2023	2022, as restated
Assets						
Current and other assets	\$ 68,744,052	\$ 61,883,770	\$ 881,264	\$ 1,088,047	\$ 69,625,316	\$ 62,971,817
Non-current assets	171,976,642	160,091,406	2,710,473	1,847,429	174,687,115	161,938,835
Total assets	<u>240,720,694</u>	<u>221,975,176</u>	<u>3,591,737</u>	<u>2,935,476</u>	<u>244,312,431</u>	<u>224,910,652</u>
Liabilities						
Current and other liabilities	34,265,100	25,338,051	-	4,330	34,265,100	25,342,381
Non-current liabilities	48,258,918	46,764,905	-	-	48,258,918	46,764,905
Total liabilities	<u>82,524,018</u>	<u>72,102,956</u>	<u>-</u>	<u>4,330</u>	<u>82,524,018</u>	<u>72,107,286</u>
Net Position						
Net investment in capital assets	133,570,288	124,035,369	2,710,473	1,847,429	136,280,761	125,882,798
Restricted	28,873,079	28,573,343	-	-	28,873,079	28,573,343
Unrestricted (deficit)	(4,246,691)	(2,736,492)	881,264	1,083,717	(3,365,427)	(1,652,775)
Total net position	<u>\$158,196,676</u>	<u>\$149,872,220</u>	<u>\$ 3,591,737</u>	<u>\$ 2,931,146</u>	<u>\$161,788,413</u>	<u>\$152,803,366</u>

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serves as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. On June 30, 2023, assets of the governmental activities exceeded its liabilities by \$158,196,676. Of this amount, (\$4,246,691) represents unrestricted net position (deficit). This deficit primarily arises from long-term obligations such as compensated absences, landfill, mortgage payable, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported an increase of 6% with respect to the fiscal period 2022, as restated.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

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

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2023 and 2022, as restated:

TABLE 2

Statement of Activities For the Fiscal Year Ended June 30,						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022, as restated	2023	2022	2023	2022, as restated
Program revenues:						
Fees, fines and charges for services	\$ 282,306	\$ 2,453,101	\$ 117,425	\$ 132,845	\$ 399,731	\$ 2,585,946
Operating grants and contributions	16,321,682	13,775,723	-	-	16,321,682	13,775,723
Capital grants and contributions	3,985,503	2,213,710	-	-	3,985,503	2,213,710
General revenues:						
Property taxes	19,674,456	22,505,008	-	-	19,674,456	22,505,008
Municipal license taxes	9,244,348	7,306,078	-	-	9,244,348	7,306,078
Sales and use taxes	6,125,029	5,504,036	-	-	6,125,029	5,504,036
Grants and contributions not restricted to specific programs	6,732,454	7,481,548	-	-	6,732,454	7,481,548
Interest	1,141,621	12,007	-	-	1,141,621	12,007
Miscellaneous	1,006,428	428,849	-	-	1,006,428	428,849
Transfers	(696,330)	-	696,330	-	-	-
Total revenues	63,817,497	61,680,060	813,755	132,845	64,631,252	61,812,905
Expenses:						
General government	31,279,460	23,089,093	153,164	142,995	31,432,624	23,232,088
Public safety	3,162,375	1,610,269	-	-	3,162,375	1,610,269
Public works	4,785,625	1,384,409	-	-	4,785,625	1,384,409
Health, welfare and community development	12,147,165	12,478,419	-	-	12,147,165	12,478,419
Culture and recreation	1,302,618	1,541,428	-	-	1,302,618	1,541,428
Interest on long-term debt	2,815,798	1,885,004	-	-	2,815,798	1,885,004
Total expenses	55,493,041	41,988,622	153,164	142,995	55,646,205	42,131,617
Extraordinary item:						
Cancellation of Community Disaster Loan	-	5,000,000	-	-	-	5,000,000
Change in net position	8,324,456	24,691,438	660,591	(10,150)	8,985,047	24,681,288
Net position-beginning of year, as restated	149,872,220	125,180,782	2,931,146	2,941,296	152,803,366	128,122,078
Net position-end of year	\$158,196,676	\$149,872,220	\$3,591,737	\$2,931,146	\$161,788,413	\$152,803,366

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues, governmental activities - The three major sources of revenues of the Municipality in fiscal year 2023 are: property taxes with 30% of total revenues, operating grants and contributions with 25% and municipal licenses taxes with 14%. Revenues increased 5% mainly due to an increase in operating grants, and municipal licenses taxes. The following chart illustrates the revenue comparison between 2023 and 2022:

Figure 1

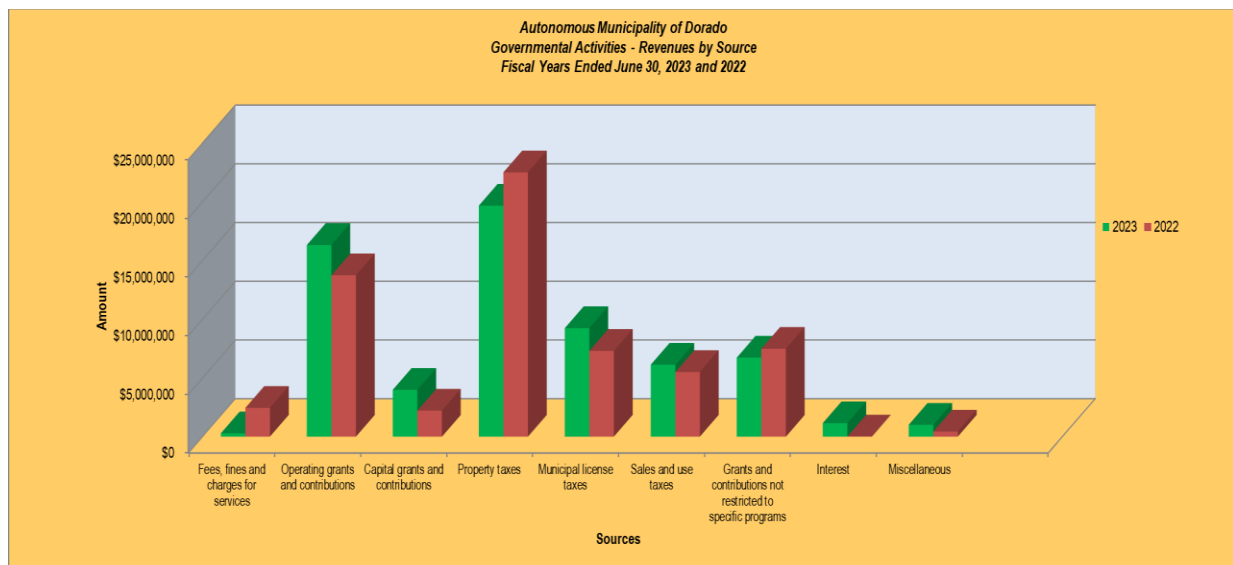
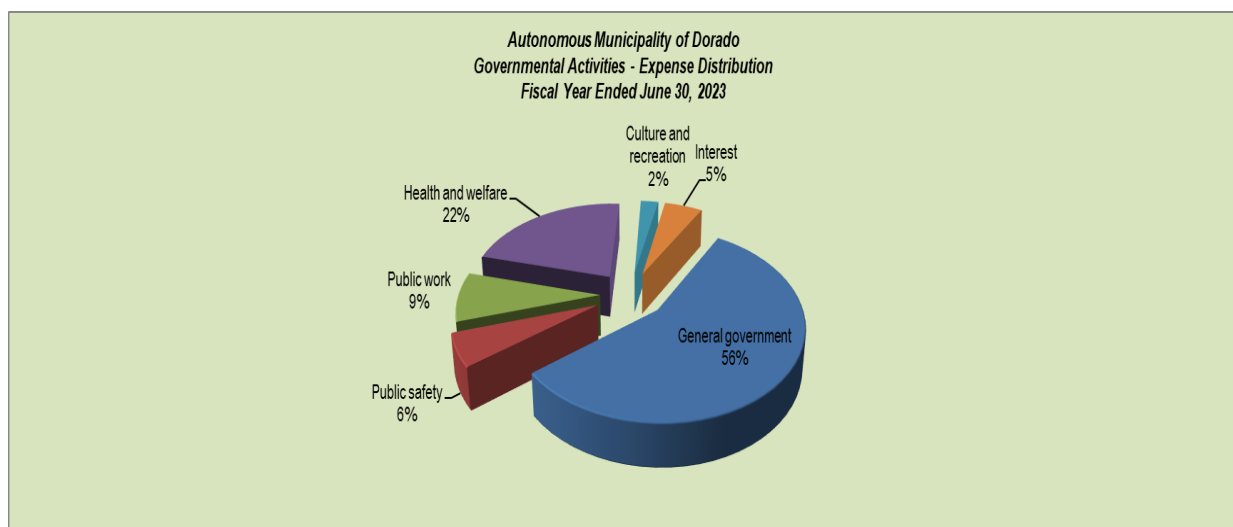


Figure 2



FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

With respect to the prior year, the most significant increases are:

- Interests (9,408%), due to amounts deposited in commercial accounts generated interests in favor of the Municipality,
- Miscellaneous revenues (135%), due to amounts collected from other revenues not classified in other general revenues.

Revenues, business-type activities - The revenues of Commercial Pavilion, which consists mainly of charges for services – rental fee, decreased 12%.

Expenses, governmental activities - The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses of governmental activities in the fiscal year 2023. As disclosed, the largest governmental activities expenses are general government with 56% and health, welfare and community development with 22%. Total expenses increased 32% when compared with fiscal year 2022, as restated.

The most significant increase is:

- Public works (246%), due to increased expenditures in reconstruction of public facilities.

Expenses, business-type activities - expenses of Commercial Pavilion consists of depreciation and other operational expenses. Expenses increased \$10,169 or 7% with respect to 2022.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

The Statement of Activities reports revenues and expenses in a format that focuses on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2023 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3	
Expenses Net of Program Revenues - Governmental Activities	
Fiscal Year Ended June 30, 2023	
Net expenses	2023
General government	\$ (29,437,871)
Public safety	(834,023)
Public works	(523,113)
Health, welfare and community development	(828,642)
Culture and recreation	(464,103)
Interest on long term debt	(2,815,798)
Total expenses, net of program revenues	(34,903,550)
General revenues	
Taxes	35,043,833
Grants and contributions not restricted to specific programs	6,732,454
Interest and other	1,141,621
Miscellaneous	1,006,428
Transfers	(696,330)
Total general revenues	43,228,006
Change in net position	\$ 8,324,456

Expenses of governmental activities not covered by program revenues were covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS (CONTINUED)

For the fiscal year ended June 30, 2023, the governmental funds reported ending fund balances of \$30,181,428, a decrease of \$3,072,813 or 9% compared to the prior year, as restated. Of the total fund balances, \$685,055 or (2%) constitutes unassigned fund balance. Also, \$1,042,583 is classified as non-spendable. The remaining fund balance is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 77% of total ending fund balances. Of the total fund balance, \$1,042,583 is non-spendable due to advances to other funds. \$14,568,426 and \$4,003,711 are committed and assigned funds, respectively. The remaining unassigned fund balance is \$3,588,083. Unassigned fund balance decreased 52% with respect to the prior year.

During the fiscal year, the fund balance of the general fund increased by \$3,148,313. The main sources of revenues of the general fund in fiscal year 2023 are: taxes (property taxes, licenses, permits and other local taxes, sales and use tax and municipal license taxes) with 86%. Revenues increased 4% in comparison to 2022 due to increases in municipal license taxes, licenses, permits and other local taxes and interests.

The largest expenditures of the general fund are general government with 70% and public works with 23%. Expenditures increased 32% due to an increase in expenditures for public works.

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

Condensed Balance Sheet	2023	2022, as restated
Assets:		
Total assets – Major Funds	\$ 64,101,454	\$ 53,208,746
Total assets – Other Funds	10,218,393	13,107,529
Combined total assets	<u>\$ 74,319,847</u>	<u>\$ 66,316,275</u>
Liabilities:		
Total liabilities – Major Funds	\$ 37,949,595	\$ 24,206,762
Total liabilities – Other Funds	3,676,863	6,737,759
Combined total liabilities	<u>41,626,458</u>	<u>30,944,521</u>
Deferred Inflows of Resources:		
Total inflows – Major Funds	736,043	987,721
Total Inflows – Other Funds	1,775,918	1,129,792
Combined total deferred inflows of resources	<u>2,511,961</u>	<u>2,117,513</u>
Fund Balances:		
Nonspendable	1,042,583	417,632
Restricted – Major Funds	5,116,041	7,959,773
Restricted – Other Funds	4,765,612	5,239,978
Committed - Major Funds	14,568,426	5,902,785
Assigned - Major Funds	4,003,711	6,286,953
Unassigned - Major Funds	685,055	7,447,120
Combined total fund balances	<u>30,181,428</u>	<u>33,254,241</u>
Total liabilities and fund balances	<u>\$ 74,319,847</u>	<u>\$ 66,316,275</u>

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS (CONTINUED)

Condensed Changes in Fund Balances	2023	2022, as restated
Revenues:		
Total revenues – Major Funds	\$ 58,999,139	\$ 54,187,636
Total revenues – Other Funds	5,151,279	7,608,361
Combined total revenues	64,150,418	61,795,997
Expenditures:		
Total expenditures – Major Funds	61,193,748	43,722,727
Total expenditures – Other Funds	5,634,472	6,948,793
Combined total expenditures	66,828,220	50,671,520
Other financing sources:		
Proceeds from loan	301,319	376,486
Transfer in	7,700,275	5,218,638
Transfer out	(8,396,605)	(5,218,638)
Combined other financing sources, net	(395,011)	376,486
Net changes in fund balance	(3,072,813)	11,500,963
Fund Balance – beginning, as restated	33,254,241	21,753,278
Fund Balance – ending	\$ 30,181,428	\$ 33,254,241

Proprietary fund

The Municipality's proprietary fund provides the same type of information found in the government-wide statements but in more detail. The net position of Commercial Pavilion at the end of the fiscal year amounted to \$3,591,737. In 2023, expenses were financed with rental fees collected by the Municipality. Expenses consists of depreciation and other operational expenses. Also, during the year construction and repairs were made. These projects were financed by FEMA funds and from municipal insurance proceeds. The fund reported a positive change in net position of \$660,591 in the statement of revenues, expenses, and changes in net position.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2022-2023 presented a 14% increase with respect to the prior year revised budget. Actual revenues reported a positive variance with respect to revised budgeted revenues by \$5,054,334 (net). Also, the Municipality reported a positive variance of \$3,942,810 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$8,997,144.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital assets**

Capital assets, governmental activities. At the end of the fiscal year, the Municipality has invested, within its governmental activities \$171,976,642 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. **Figure 3** disclose the comparison between current year and prior year amounts.

Figure 3

<i>Capital Assets, net As of June 30,</i>		
	Governmental Activities	
	2023	2022
Nondepreciable assets:		
Land	\$ 73,839,915	\$ 73,822,335
Construction in progress	35,418,943	28,830,664
Depreciable assets (net):		
Buildings	9,828,487	9,594,765
Buildings improvements	27,473,431	24,799,089
Infrastructure	15,182,917	15,169,743
Infrastructure improvements	6,958,568	5,862,354
Equipment	1,443,116	952,920
Furnishing	108,927	5,244
Works of art	50,141	85,381
Computers	130,227	107,642
Leased assets	77,948	155,895
Vehicles	1,464,022	705,374
Total:	\$ 171,976,642	\$ 160,091,406

The Municipality's major capital projects that were still in construction include roads repairs and several recreational facilities. During the fiscal year 2022-2023, the Municipality completed and transferred various projects to building improvements and infrastructure and infrastructure improvements amounting to approximately \$4.3 million.

Capital assets, business-type activities. Commercial Pavilion Rafael Hernández Colón is a facility constructed and owned by the Municipality. The land, building and equipment are also the property of the Municipality.

More detailed information about the Municipality's capital assets is presented in **Note 9** to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2023, and 2022:

TABLE 4

	<i>Outstanding Long-term debt</i>	
	<i>Fiscal years ended June 30,</i>	
	Governmental Activities	
	2023	2022, as restated
Bonds and notes payable	\$ 37,936,815	\$ 36,056,037
USDA Community Facilities Loan	469,539	-
Compensated absences	2,666,437	2,774,576
Claims and judgments	150,000	320,000
Christmas bonus	372,159	372,459
Landfill obligation	3,388,793	3,894,883
Mortgage payable	3,200,000	3,200,000
CRIM final settlement 2022-23	19,653	-
Lease liability	55,522	146,950
Total:	\$ 48,258,918	\$ 46,764,905

At year-end, the Municipality had outstanding \$37,936,815 in general and special bonds and notes, a net increase with respect to the prior year of \$1,880,778. The most significant change in the total long-term liabilities reported for the fiscal year 2023 is the issuance of municipal obligations bonds for \$1,450,000 and \$3,608,000 for acquisition of vehicles and municipal roads improvements and repairs, respectively.

More detailed information about the Municipality's long-term liabilities is presented in **Note 10** of the financial statements.

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 2023-2024.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

Fiscal Conditions for Municipalities in Puerto Rico

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

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

As a consequence of the Commonwealth's fiscal crisis, the Government Development Bank for Puerto Rico ("GDB") completed its wind-down of its fundamental operations on March 23, 2018. GDB historically served as an important source of liquidity to municipal governments by providing financing to such entities. Certain mid-sized and small municipalities were not able to obtain financing from commercial financial institutions to continue funding their public work programs and operations since those institutions have strengthened their requirements for financing. In order to mitigate the impact of this events, the municipalities are obtaining other alternatives of long-term financing including federal loans from Rural Development, HUD (Section 108) and FEMA (CDL Loans).

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

For the fiscal year 2022-23, the **Autonomous Municipality of Dorado** received \$676,236 from Act No. 53.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (CONTINUED)

Municipalities inflation fund

On 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 criterion: fiscal year Budget and property valuation. Under this formula the **Autonomous Municipality of Dorado** received \$296,747.

Puerto Rico Hurricane Fiona (DR-4671-PR)

On September 18, 2022, Hurricane Fiona devastated Puerto Rico. The Hurricane caused significant economic and infrastructure damages disrupting the daily lives of approximately 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations.

An emergency, and subsequently a mayor disaster declaration was issued by the U.S. President for the entire island of Puerto Rico. Therefore, the Municipality is eligible to apply for assistance to mitigate the disaster caused by Hurricane Fiona.

The Municipality is performing the assessment of all suffered damages in its public facilities and infrastructure, in order to apply for Federal and State assistance.

Reimbursement of Health System Administration (ASES) FY2022 Retentions

Act No. 72-1993, states the Municipal Revenues Collection Center ("CRIM") has to retain from municipality's revenues any amount due to the Health System Administration (ASES) as a prorated formula established in the act. However, the Financial Oversight and Management Board for Puerto Rico has stated that any federal grant awarded to ASES that generates economic relief should be distributed equally to municipalities.

On February 2023, the CRIM received a notice by ASES that due to federal funds awarded to the Administration the amount retained from the Municipality for fiscal year 2022 was reduced a reimbursement was approved. The amount approved for reimbursement was \$248,007.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, 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 at PO Box 588, Dorado, Puerto Rico 00646-0588, or by telephone (787) 796-1230.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Statement of Net Position
June 30, 2023**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and cash equivalents	\$ 28,655,006	\$ 819,324	\$ 29,474,330
Accounts receivable:			
Sales and use tax	443,353	-	443,353
Intergovernmental	1,935,528	-	1,935,528
Federal grants	3,503,382	-	3,503,382
Restricted assets:			
Cash and cash equivalents	23,664,387	-	23,664,387
Cash with fiscal agent in commercial bank	10,485,532	61,940	10,547,472
Other assets	56,864	-	56,864
Total current assets	68,744,052	881,264	69,625,316
Non-current assets:			
Capital assets:			
Land, improvements, and construction in progress	109,258,858	388,790	109,647,648
Other capital assets, net of depreciation	62,717,784	2,321,683	65,039,467
Total capital assets	171,976,642	2,710,473	174,687,115
Total non-current assets	171,976,642	2,710,473	174,687,115
Total assets	240,720,694	3,591,737	244,312,431
Current liabilities:			
Accounts payable and accrued liabilities	9,291,688	-	9,291,688
Accrued interest payable	1,558,491	-	1,558,491
Due to other governmental entities	296,424	-	296,424
Unearned revenues:			
Municipal license taxes	6,766,069	-	6,766,069
Federal grant revenues	16,352,428	-	16,352,428
Total current liabilities	34,265,100	-	34,265,100
Noncurrent liabilities:			
Due within one year	4,378,334	-	4,378,334
Due in more than one year	43,880,584	-	43,880,584
Total non-current liabilities	48,258,918	-	48,258,918
Total liabilities	82,524,018	-	82,524,018
Net Position:			
Net investment in capital assets	133,570,288	2,710,473	136,280,761
Restricted for:			
Capital projects	1,656,363	-	1,656,363
Debt service	9,539,041	-	9,539,041
Other purposes	17,677,675	-	17,677,675
Unrestricted (deficit)	(4,246,691)	881,264	(3,365,427)
Total net position	\$ 158,196,676	\$ 3,591,737	\$ 161,788,413

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

Statement of Activities
For the Fiscal Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 31,279,460	\$ 74,901	\$ 1,766,688	\$ -	\$ (29,437,871)	\$ -	\$ (29,437,871)
Public safety	3,162,375	-	2,328,352	-	(834,023)	-	(834,023)
Public works	4,785,625	35,560	241,449	3,985,503	(523,113)	-	(523,113)
Health, welfare and community development	12,147,165	94,295	11,224,228	-	(828,642)	-	(828,642)
Culture and recreation	1,302,618	77,550	760,965	-	(464,103)	-	(464,103)
Interest on long-term debt	2,815,798	-	-	-	(2,815,798)	-	(2,815,798)
Total governmental activities	\$ 55,493,041	\$ 282,306	\$ 16,321,682	\$ 3,985,503	(34,903,550)	-	(34,903,550)
Business-type activities:							
General government	153,164	117,425	-	-	-	(35,739)	(35,739)
Total business-type activities	153,164	117,425	-	-	-	(35,739)	(35,739)
Total primary government	\$ 55,646,205	\$ 399,731	\$ 16,321,682	\$ 3,985,503	(34,903,550)	(35,739)	(34,939,289)
General revenues:							
Property taxes					19,674,456	-	19,674,456
Municipal license taxes					9,244,348	-	9,244,348
Municipal sales and use tax					6,125,029	-	6,125,029
Grants and contributions not restricted to specific programs					6,732,454	-	6,732,454
Interest					1,141,621	-	1,141,621
Miscellaneous					1,006,428	-	1,006,428
Transfers					(696,330)	696,330	-
Total general revenues					43,228,006	696,330	43,924,336
Change in net position					8,324,456	660,591	8,985,047
Net position - beginning, as restated					149,872,220	2,931,146	152,803,366
Net position - ending					\$ 158,196,676	\$ 3,591,737	\$ 161,788,413

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Balance Sheet-Governmental Funds
June 30, 2023**

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	American Rescue Plan Act Fund	Disaster Grants Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:								
Cash and cash equivalents	\$ 28,655,006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,655,006
Accounts receivable:								
Sales and use tax	443,353	-	-	-	-	-	-	443,353
Intergovernmental	-	-	-	-	-	-	1,935,528	1,935,528
Federal grants	-	513,807	785,511	-	2,204,064	-	-	3,503,382
Due from:								
Other funds	4,360,944	80,913	32,523	50,336	-	-	8,496	4,533,212
Advances to other funds	1,042,583	-	-	-	-	-	-	1,042,583
Restricted assets:								
Cash and cash equivalents	-	2,053,982	4,010,106	8,657,134	725,660	-	8,217,505	23,664,387
Cash with fiscal agent in commercial bank	-	-	-	-	-	10,485,532	-	10,485,532
Other assets	-	-	-	-	-	-	56,864	56,864
Total assets	\$ 34,501,886	\$ 2,648,702	\$ 4,828,140	\$ 8,707,470	\$ 2,929,724	\$ 10,485,532	\$ 10,218,393	\$ 74,319,847

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Balance Sheet-Governmental Funds (continued)
June 30, 2023**

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	ARPA Fund	Disaster Grants Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Liabilities, deferred inflows of resources and fund balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 4,098,963	\$ 587,123	\$ 304,010	\$ 128,531	\$ 834,667	\$ -	\$ 1,312,957	\$ 7,266,251
Matured bonds and notes payables	-	-	-	-	-	3,811,000	-	3,811,000
Matured interest payable	-	-	-	-	-	1,558,491	-	1,558,491
Due to:								
Commonwealth government	296,424	-	-	-	-	-	-	296,424
Other funds	121,932	137,070	1,094,313	-	1,825,414	-	1,354,483	4,533,212
Advances from other funds	-	-	33,160	-	-	-	1,009,423	1,042,583
Unearned revenues:								
Municipal license taxes	6,766,069	-	-	-	-	-	-	6,766,069
Federal grant revenues	-	1,924,509	3,574,804	8,578,939	2,274,176	-	-	16,352,428
Total liabilities	11,283,388	2,648,702	5,006,287	8,707,470	4,934,257	5,369,491	3,676,863	41,626,458
Deferred inflows of resources:								
Commonwealth government	15,695	-	-	-	-	-	1,775,918	1,791,613
Federal government	-	-	667,136	-	53,212	-	-	720,348
Total deferred inflows of resources	15,695	-	667,136	-	53,212	-	1,775,918	2,511,961
Fund balances:								
Nonspendable	1,042,583	-	-	-	-	-	-	1,042,583
Restricted	-	-	-	-	-	5,116,041	4,765,612	9,881,653
Committed	14,568,426	-	-	-	-	-	-	14,568,426
Assigned	4,003,711	-	-	-	-	-	-	4,003,711
Unassigned (deficit)	3,588,083	-	(845,283)	-	(2,057,745)	-	-	685,055
Total fund balances (deficit)	23,202,803	-	(845,283)	-	(2,057,745)	5,116,041	4,765,612	30,181,428
Total liabilities, deferred inflows of resources and fund balances	\$ 34,501,886	\$ 2,648,702	\$ 4,828,140	\$ 8,707,470	\$ 2,929,724	\$ 10,485,532	\$ 10,218,393	\$ 74,319,847

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2023**

Total Fund Balances - Governmental Funds \$ 30,181,428

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. In the current period, these amounts are:

Non-depreciable capital assets	\$ 109,258,858	
Depreciable capital assets	111,504,261	
Accumulated depreciation	(48,786,477)	
Total capital assets, net		171,976,642

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Municipal Financing Corporation (COFIM)-Sales and use taxes	15,695	
P.R. Department of Labor-Law No. 52	68,151	
U.S. Department of Agriculture-Community Facilities Loan and Grants	667,136	
U.S. Department of Homeland Security-Disaster Grants	53,212	
P.R. Department of Agriculture-Rural Development Corporation	138,055	
P.R. Treasury Department-Joint Resolutions	735,660	
P.R. Department of Transportation	834,052	
		2,511,961

Accounts payable related to construction in progress are not due and payable in the current period and, therefore, are not reported in the funds. (2,025,437)

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(34,125,815)	
Christmas bonus	(372,159)	
Compensated absences	(2,666,437)	
Landfill obligation	(3,388,793)	
Mortgage payable	(3,200,000)	
Lease liability	(55,522)	
Claims and judgments	(150,000)	
CRIM final settlement 2022-23	(19,653)	
USDA Rural Development Loan	(469,539)	
Total long-term liabilities		(44,447,918)

Total Net Position of Governmental Activities \$ 158,196,676

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds
For the Fiscal Year Ended June 30, 2023**

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	American Rescue Plan Act Fund	Disaster Grants Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Property taxes	\$ 11,945,646	\$ -	\$ -	\$ -	\$ -	\$ 8,716,531	\$ -	\$ 20,662,177
Municipal license taxes	9,244,348	-	-	-	-	-	-	9,244,348
Municipal sales and use tax	4,687,248	-	-	-	-	1,422,086	-	6,109,334
Licenses, permits and other local taxes	4,266,587	-	-	-	-	-	6,700	4,273,287
Charges for services	198,056	-	-	-	-	-	77,550	275,606
Intergovernmental	2,465,867	-	-	-	-	-	320,765	2,786,632
Fines and forfeitures	2,673	-	-	-	-	-	-	2,673
Rent of property	160,069	-	-	-	-	-	-	160,069
Interest	1,128,582	-	372	-	19	-	12,648	1,141,621
Federal grants	-	8,640,664	2,444,223	1,766,688	1,065,794	-	1,671,174	15,588,543
Miscellaneous	843,686	-	-	-	-	-	3,062,442	3,906,128
Total revenues	34,942,762	8,640,664	2,444,595	1,766,688	1,065,813	10,138,617	5,151,279	64,150,418
Expenditures								
Current:								
General government	26,599,111	-	-	1,172,121	-	-	74,999	27,846,231
Public safety	1,592,454	-	240	-	-	-	1,615,584	3,208,278
Public works	8,925,499	-	2,494,240	-	2,474,123	-	1,526,072	15,419,934
Health and welfare	429,654	8,640,664	939,935	-	-	-	1,684,470	11,694,723
Culture and recreation	595,135	-	-	-	-	-	61,158	656,293
Economic development	-	-	-	-	-	-	672,189	672,189
Community development	-	-	292,774	-	-	-	-	292,774
Debt service:								
Principal	-	-	306,000	-	-	3,916,000	-	4,222,000
Interest	-	-	88,388	-	-	2,727,410	-	2,815,798
Total expenditures	38,141,853	8,640,664	4,121,577	1,172,121	2,474,123	6,643,410	5,634,472	66,828,220

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Statement of Revenues, Expenditures and
Changes in Fund Balances-Governmental Funds (continued)
For the Fiscal Year Ended June 30, 2023**

	General Fund	Special Revenue Fund Head Start	Special Revenue Fund Other Federal Grants	American Rescue Plan Act Fund	Disaster Grants Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Excess (deficiency) of revenues over (under) expenditures	(3,199,091)	-	(1,676,982)	594,567	(1,408,310)	3,495,207	(483,193)	(2,677,802)
Other financing sources (uses)								
Proceeds from loan	-	-	301,319	-	-	-	-	301,319
Transfers in	6,906,431	-	782,562	-	-	-	11,282	7,700,275
Transfers out	(559,027)	-	(252,182)	(594,567)	(650,118)	(6,338,256)	(2,455)	(8,396,605)
Total other financing sources (uses)	<u>6,347,404</u>	<u>-</u>	<u>831,699</u>	<u>(594,567)</u>	<u>(650,118)</u>	<u>(6,338,256)</u>	<u>8,827</u>	<u>(395,011)</u>
Net change in fund balances	3,148,313	-	(845,283)	-	(2,058,428)	(2,843,049)	(474,366)	(3,072,813)
Fund balances, beginning as restated	20,054,490	-	-	-	683	7,959,090	5,239,978	33,254,241
Fund balances (deficit), ending	<u>\$ 23,202,803</u>	<u>\$ -</u>	<u>\$ (845,283)</u>	<u>\$ -</u>	<u>\$ (2,057,745)</u>	<u>\$ 5,116,041</u>	<u>\$ 4,765,612</u>	<u>\$ 30,181,428</u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2023**

Net Change in Fund Balances - Total Governmental Funds \$ (3,072,813)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for capital assets	\$ 19,592,421	
Less: current-year depreciation	(3,403,327)	16,189,094

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Municipal Financing Corporation (COFIM) - Sales and use tax Final Liquidation	15,695	
P.R. Department of Labor - Law No. 52	68,151	
U.S. Department of Agriculture - Community Facilities Loan and Grants	667,136	
U.S. Department of Homeland Security - Disaster Grants	53,212	
P.R. Department of Agriculture-Rural Development Corporation	138,055	
P.R. Treasury Department-Joint Resolutions	735,660	
P.R. Department of Transportation	834,052	2,511,961

Revenues reported in the funds that are not reported as revenues in the Statement of Activities:

Municipal Revenue Collection Center (CRIM)-Property taxes	(987,721)	
P.R. Office of the Ombudsman for the Elderly - Nutrition Services Incentive Program	(1,023)	
P.R. Department of Labor - Law No. 52	(35,757)	
P.R. Department of Housing - CDBG-DR	(51,325)	
P.R. Department of Agriculture-Rural Development Corporation	(138,055)	
Treasury Department-Joint Resolutions	(725,091)	
P.R. Department of Transportation	(209,580)	(2,148,552)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.

(4,303,858)

Proceeds from USDA Rural Development Loan provide current financial resources to governmental funds, but issuing debt increases non-current liabilities in the Statement of Net Position

(301,319)

Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		1,044,778
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	3,177,222	
Other long-term liabilities	1,248,116	4,425,338

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

General obligation bonds issuance	(5,058,000)	
Christmas bonus	(372,159)	
USDA Community Facilities Loan	(301,319)	
CRIM final settlement 2022-23	(19,653)	
Accrued interest (net)	(680,406)	(6,431,537)

Accounts payable change is reported in the Government-Wide Statement of Activities and Changes in Net Position but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the net change amount.

411,364

Change in Net Position of Governmental Activities \$ 8,324,456

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Statement of Net Position
Proprietary Fund
June 30, 2023**

	Commercial Pavilion Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 819,324
Cash with fiscal agent	61,940
Total current assets	<u>881,264</u>
Noncurrent assets:	
Capital assets:	
Property, and equipment:	
Land	388,790
Building and building improvements	4,788,882
Equipment	11,509
Accumulated depreciation	<u>(2,478,708)</u>
Total noncurrent assets	<u>2,710,473</u>
Total assets	<u><u>3,591,737</u></u>
Liabilities	
Current liabilities:	
Accounts payable	<u>-</u>
Total liabilities	<u><u>-</u></u>
Net Position	
Net investment in capital assets	2,710,473
Unrestricted	<u>881,264</u>
Total Net Position	<u><u>\$ 3,591,737</u></u>

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Statement of Revenues, Expenses and Changes
in Net Position Proprietary Fund
For the Fiscal Year Ended June 30, 2023**

	Commercial Pavilion Enterprise Fund
Operating revenues:	
Charges for services	\$ 117,425
Total operating revenues	<u>117,425</u>
Operating expenses:	
Operations and maintenance	39,143
Depreciation and amortization	<u>114,021</u>
Total operating expenditures	<u>153,164</u>
Operating income	(35,739)
Non-operating revenues (expenses):	
Transfer in	<u>696,330</u>
Total non-operating revenues (expenses)	<u>696,330</u>
Change in net position	660,591
Total net position-beginning	2,931,146
Total net position-ending	<u><u>\$ 3,591,737</u></u>

	Commercial Pavilion Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 117,425
Transfer from governmental funds	696,330
Acquisition of capital assets	(3,415)
Payment to suppliers	(43,473)
Net cash provided by operating activities	<u>766,867</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Building Improvements	<u>(973,650)</u>
Net cash used in capital and related financing activities	<u>(973,650)</u>
Net increase in cash and cash with fiscal agent, restricted	(206,783)
Cash and cash with fiscal agent at beginning of period, restricted	<u>1,088,047</u>
Cash and cash with fiscal agent at end of period, restricted	<u>\$ 881,264</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating gain (loss)	<u>\$ (35,739)</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Capitalization of new equipment	(3,415)
Transfer in from governmental funds	696,330
Decrease in accounts payable	(4,330)
Depreciation expense	<u>114,021</u>
Total adjustments	<u>802,606</u>
Net cash provided by operating activities	<u>\$ 766,867</u>
NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES:	NONE

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Dorado** (the Municipality) was founded in the year 1842. The Municipality's governmental system consists of an executive and legislative body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

A. Financial reporting entity

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

A primary government's financial accountability for a legally separate organization is determined based on the following criteria:

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

Also, as indicated above, it would be necessary to include other organizations as component units if their exclusion would cause the financial statements of the primary government to be misleading or incomplete.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial reporting entity (continued)

In addition, “special criteria” applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate organizations that do not meet the financial accountability requirement or the above “special criteria” should still be included as a component unit if the financial statements of the primary government would be misleading or incomplete without them.

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

1. The component unit’s governing body is substantively the same as the governing body of the primary government and there is either:
 - A financial benefit/burden exists between the primary government and the entity or,
 - Management of the primary government has operational responsibility for the component unit
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit’s debt is expected to be paid by the primary government.
4. The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit’s articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21–37 of Statement No.14, “*The Financial Reporting Entity*”, as amended.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial reporting entity (continued)

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

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

B. Financial statement presentation, measurement focus and basis of accounting

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

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities which is similar to the analysis the private sector companies provide in their annual reports.

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

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

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred, and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

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

Governmental Fund Financial Statements (FFS)

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial, and contractual provisions. Governmental funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on minimum criteria, that is, a

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund-Head Start – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5 years-old) and their families that are under the poverty line or are eligible for public assistance.

Special Revenue Fund – Other Federal Grants – Is the fund, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are restricted by outside parties for use in specific purposes. The uses and limitations of these funds are specified by federal statutes.

American Rescue Plan Act (ARPA) Fund – This fund accounts for the federal funds of the Coronavirus State and Local Fiscal Recovery funds provided by Department of Treasury under the American Rescue Plan Act.

Disaster Grants 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 Hurricanes 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-4336 (Hurricane Irma) and DR-4339 (Hurricane Maria).

Debt Service Fund – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) "CAE Fund", the sinking fund which accounts for the 4% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) "Municipal Redemption Fund", the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund's operating revenues.

The Municipality reports the remaining nonmajor governmental funds in a single column, which include the following types:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Special Revenue Fund – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied, and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Fund – Is a governmental fund used to account for and report financial resources received from the Commonwealth Government that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds.

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

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

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the GFFS.

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

Proprietary Funds Statements

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

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

The Municipality's proprietary funds consist of one enterprise fund: the Commercial Pavilion Rafael Hernández Colón, whose main operating activity is rent of commercial spaces. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services be financed or recovered primarily through user charges. Major enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial statement presentation, measurement focus and basis of accounting (continued)

Notes to basic financial statements

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

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund. Management decided to omit the required supplementary information in accordance with **GASB Statement No. 73** and **75** as further explained in **Note 18** and **Note 19** of the basic financial statements.

Supplementary information.

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality. Also, the supplementary information includes a Schedule of Expenditures of Federal Awards that details the amounts expended in each of the Municipality's federal programs during the fiscal year.

C. Stewardship, compliance, and accountability

Budgetary control according to Law No. 81 requires that the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund and debt service fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared. The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Office of Management and Budget ("OGPE") and the Municipal Legislature no later than the immediately preceding May 31. The OGPE preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15. The Municipal Legislature has 10 business days, up to the immediately preceding June 13, 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 six (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 eight (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 three (3) days to sign and approve it.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Stewardship, compliance, and accountability (continued)

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 Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation 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 function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund. 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.

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 an unspent balance from the prior year be carried forward and made available for current spending.

D. Deposits and investments

Governmental activities - The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and investments (continued)

acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits.

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in commercial bank in the Debt Service Fund consists of the undisbursed balance of property and sales tax collections restricted for the repayment of the Municipality's general and special obligation bonds and notes, which are under the custody of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Municipalities' fiscal agent) and held at a private bank.

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

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the General Fund represent property taxes of the current fiscal year collected by the Municipal Revenues Collection Center ("CRIM") in the subsequent fiscal year and reimbursements owed by state agencies for expenditures incurred during the current fiscal year. Amounts due from Commonwealth and federal governments reported in the Special Revenue Fund Head Start Program, in the Special Revenue Fund-Other Federal Grants, in the Disaster Grant Fund and in the Other Governmental Funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

G. Inter-fund transactions

The Municipality reports the following inter-fund transactions in the FFS:

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inter-fund transactions (continued)

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

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

H. 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, but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

I. Capital assets

Governmental and business-type activities - Capital assets reported in the governmental and in business-type activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are 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).

Leases (Municipality as a lessee): For new or modified contracts, the Municipality determines whether the contract is a lease. If a contract is determined to be, or contain, a lease with a non-cancellable term in excess of 12 months (including any options to extend or terminate the lease when exercise is reasonably certain), the Municipality records an intangible right-to-use lease asset and a lease liability.

At the commencement of the lease, the Municipality measures the lease liability at the present value of payments expected to be made during the lease term. If the interest rate implicit in the lease is not readily determinable, the Municipality will use the risk-free rate of return for U.S Treasury plus 2% (align with the lease term) in the calculation of the present value of the lease payments. The intangible right-to-use 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 or implementation costs. Subsequently,

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital assets (continued)

the intangible right-to-use lease asset is amortized on a straight-line basis over a period that is the shorter of the lease term or the useful life of asset. The lease liability, reported as a long-term obligation, is reduced by the principal portion of lease payments made. Lease payments are apportioned between interest expense and principal based on an amortization schedule calculated using the effective interest method. Leases with an initial, non-cancellable term of 12 months or less are not recorded on the statement of net position. Expense is recognized as incurred over the lease term.

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

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years
Right-to-use lease assets	3 to 5 years or the shorter of the lease term

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

J. Accounts payable and accrued liabilities

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

K. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure, lease liability and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated absences'

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

M. 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 GFFS, amounts are recorded liabilities and expenditures in the General Fund when they mature (when payment is due).

N. Accounting for pension costs

The Municipality decided not 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 (PRGERS) has not provided audited information necessary for its implementation applicable to measurement year ending on June 30, 2022. Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new "PayGo" model. Under the "PayGo" funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. "PayGo" payments are recorded as expenditures/expenses in the fund financial statements.

O. Accounting for other postemployment benefits ("OPEB")

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accounting for other postemployment benefits ("OPEB") (continued)

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 PRGERS has not provided to the Municipality with the required audited information to implement the referred accounting pronouncement. The Municipality's contribution for OPEB is included as part of the "PayGo" charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). "PayGo" payments are recorded as expenditures/expenses in the financial statements.

P. 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. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Deferred outflows/inflows of resources (continued)

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 GFFS.

Q. Net Position

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

Net investment in capital assets:	Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.
Restricted net position:	The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.
Unrestricted net position:	Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal, and management can remove or modify them.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**R. Net position flow assumption**

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

S. Fund balances

The GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*" ("GASB No. 54") establishes accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

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

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund balances (continued)

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2023.

T. Fund balance flow assumptions

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

U. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law No. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums was paid directly to the insurance company during the year.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2023, amounted to \$397,467.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Risk financing (continued)

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico'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 non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

V. Use of estimates

The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

W. Adoption of new accounting pronouncements

Effective July 1, 2022 the Municipality adopted the provisions of the following accounting pronouncements:

1. **GASB Statement No. 94 "Public-Private and Public-Private Partnership and Availability Payments 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Adoption of new accounting pronouncements (continued)

2. **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 Municipality performed an identification and verification process of subscription-based information technology arrangements (SBITA) contracts. The results of this process disclosed that with regard to the Municipality as a lessee, some contracts have non-cancellable terms of 12 months from the beginning of the fiscal year. Therefore, right-to-use subscription assets and subscription liabilities are not recorded in the 2023 financial statements.
3. **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:
 - 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 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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

W. Adoption of new accounting pronouncements (continued)

3. GASB Statement No. 99 “Omnibus 2022” (continued)

- 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.

X. Future adoption of accounting pronouncements

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

1. 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 follow:

- 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

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.

2. 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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Future adoption of accounting pronouncements (continued)

2. **GASB Statement No. 100 “Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62” (continued)**

on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in 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.

3. **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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Future adoption of accounting pronouncements (continued)

4. GASB Statement No. 102 “Certain Risk Disclosures”

The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority. Concentrations and constraints may limit a government’s ability to acquire resources or control spending.

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

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

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

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

The impact of these statements on the Municipality’s financial statements, if any, has not yet been determined.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Subsequent events

Subsequent events have been evaluated through March 7, 2024, 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, 2023.

2. DEPOSITS IN COMMERCIAL BANKS

a) *Governmental activities*

The Municipality maintains cash deposits in commercial banks located in Puerto Rico. Deposits are exposed to custodial credit risk, that is, the risk that in the event of a bank failure, the Municipality's deposits might not be recovered. Under the laws and regulations of the Commonwealth of Puerto Rico, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Municipality are held by agents designated by the Puerto Rico Secretary of Treasury, but not in the Municipality's name. At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$64,033,927 (\$35,175,393 unrestricted plus \$28,858,534 restricted) was 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 on June 30, 2023, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its bank's deposits 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.

b) *Business-type activities*

At year end, Commercial Pavilion Rafael Hernández Colón's bank balance of deposits in commercial bank amounting to \$819,324 was covered by the FDIC and by pledged securities. Unspent proceeds from loans under the custody of the Puerto Rico Fiscal Agency and Financial Advisory Authority (the Municipalities' fiscal agent) and held at a private bank amount to \$61,940.

3. RECEIVABLES

The \$443,353 reported as accounts receivable from sales and use tax in the General Fund corresponds to collections made in July 2023.

4. OTHER ASSETS

Other assets in the Other Governmental Funds represent fraud recovery receivables of \$56,864 from the Housing Choice Voucher Program.

5. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2023, are as follows:

	Commonwealth Government	Federal Government
<u>Major Fund - Special revenue fund - Head Start:</u>		
P.R. Department of the Family-Administration for Children and Families-Early Head Start	\$ -	\$ 97,443
P.R. Department of the Family-Administration for Children and Families-Head Start		
Disaster Assistance	-	416,364
<u>Major Fund - Special revenue fund- other federal grants:</u>		
U.S. Department of Agriculture - Community Facilities Loan and Grants	-	667,136
U.S. Department of Health and Human Services-Nutrition Services Incentive Program	-	39,741
U.S. Federal Transit Administration Grants	-	50,731
U.S. Department of Housing and Urban Development - Emergency Shelter Grant	-	31
U.S. Department of Homeland Security - Disaster Grants	-	24,510
P.R. Socio-economic and Community Development Office - "Instituto Socio-Económico Comunitario, Inc."-CSBG Program	-	3,362
<u>Major Fund - Disaster grants fund:</u>		
U.S. Department of Homeland Security - Disaster Grants	-	2,204,064
<u>Other governmental funds:</u>		
P.R. Department of Treasury-Joint Resolution No.123	99,856	-
P.R. Department of Transportation-Cooperative agreements	993,662	-
P.R. Department of Treasury-Joint Resolution No.59	117,324	-
P.R. Department of Treasury-Joint Resolution No.412	177,764	-
P.R. Department of Treasury-Joint Resolution No.4272	7,115	-
P.R. Department of Treasury-Joint Resolutions-Others	333,601	-
P.R. Department of Agriculture-Rural Development Corp.	138,055	-
P.R. Department of Labor-Law No. 52	68,151	-
Total	\$ 1,935,528	\$ 3,503,382

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related **Note 11**.

5. DUE FROM (TO) GOVERNMENTAL ENTITIES (CONTINUED)

B. Amounts due to other governmental entities as of June 30, 2023, are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 53,185
Puerto Rico Land Authority	99,600
Employees' Retirement System of the Government of the Commonwealth of Puerto Rico- "PayGo" charges	107,768
Puerto Rico Electric Power Authority (PREPA)	400
Puerto Rico Department of Labor – Chauffeurs' Insurance	303
Commonwealth of Puerto Rico Employees' Association	35,168
Total	<u>\$ 296,424</u>

6. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds" (i.e., current portion of interfund loans).

Interfund receivables and payables on June 30, 2023, and interfund transfers during the fiscal year ended on June 30, 2023, are summarized as follows:

a. Due from/to other fund:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Fund	Reimbursement expenditures	\$ 1,354,483
General Fund	Disaster Grants Fund	Reimbursement expenditures	1,825,414
General Fund	Head Start Fund	Reimbursement expenditures	137,070
	Special Revenue Fund-Other		
General Fund	Federal Grants	Reimbursement expenditures	1,043,977
	Special Revenue Fund-Other		
ARPA Funds	Federal Grants	Pending transfer of funds	50,336
Special Revenue Fund-Other Federal			
Grants	General Fund	Pending transfer of funds	32,523
Head Start Fund	General Fund	Pending transfer of funds	80,913
Other Governmental Fund	General Fund	Short-term borrowings	8,496
Total			<u>\$ 4,533,212</u>

6. INTERFUND TRANSACTIONS (CONTINUED)

b. Advances to/from other fund

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Fund	\$ 1,009,423
	Special Revenue Fund-Other	
General Fund	Federal Grants	33,160
Total		\$ 1,042,583

This amount represents reimbursements owed by the Special Revenue Fund-Other Federal Grants, and Other Governmental Funds to the General Fund for the payment of operating expenditures.

c. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

Transfer out	Transfer In	Purpose	Amount
General Fund	Other Governmental Fund	Transfer of funds for debt service of Section 108 loan and subsidy of program expenditures.	\$ 512,815
General Fund	Enterprise Fund	Transfer of funds to finance construction works.	46,212
Special Revenue Fund-Other Federal Grants	General Fund	Transfer of funds for subsidy of program expenditures.	252,182
ARPA Fund	General Fund	Transfer of funds for subsidy of program expenditures.	316,010
ARPA Fund	Special Revenue Fund-Other Federal Grants	Transfer of funds for subsidy of program expenditures.	278,557
Disaster Grants Fund	Enterprise Fund	Transfer of funds to finance construction works.	650,118
Debt Service Fund	General Fund	Transfer of funds in sinking fund.	6,338,256
Other Governmental Fund	Special Revenue Fund-Other Federal Grants	Error in deposit.	2,455
Total			\$ 8,396,605

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7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable, and accrued liabilities on June 30, 2023, are summarized as follows:

	General Fund	Special Revenue Fund - Head Start Program	Special Revenue Fund - Other Federal Grants	American Rescue Plan Act Fund	Disaster Grants Fund	Other Governmental Funds	Total
Accounts payable - vendors	\$ 3,808,254	\$ 587,123	\$ 304,010	\$ 128,531	\$ 834,667	\$ 1,312,957	\$ 6,975,542
Accrued liabilities	290,709	-	-	-	-	-	290,709
Total	\$ 4,098,963	\$ 587,123	\$ 304,010	\$ 128,531	\$ 834,667	\$ 1,312,957	\$ 7,266,251

8. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2023, are detailed as follows:

	Amount
<u>Major fund - General Fund:</u>	
Municipal license taxes collected in the fiscal year 2022-2023 that correspond to the 2023-2024 fiscal year budget	\$ 6,766,069
<u>Major fund - Head Start Fund:</u>	
Early Head Start Program	\$ 341,589
Head Start Program	178,536
Child and Adult Care Food Program	219,423
Head Start and Early Head Start Disaster Recovery Program	1,184,961
	<u>\$ 1,924,509</u>
<u>Major fund - Special Revenue Fund-Other Federal Grants:</u>	
Special Program for the Aging-Title III	\$ 244,030
U.S. Department of Housing and Urban Development Grants	3,088,857
U.S Department of Agriculture - Communities Facilities Loan	178,147
Others	63,770
	<u>\$ 3,574,804</u>
<u>Major fund - American Rescue Plan Act Fund:</u>	
Coronavirus State and Local Fiscal Recovery Funds	<u>\$ 8,578,939</u>
<u>Major fund - Disaster Grants Fund:</u>	
Disaster Grant - Public Assistance (FEMA)	<u>\$ 2,274,176</u>
Total	<u>\$ 23,118,497</u>

9. CAPITAL ASSETS

Capital assets; those with an estimated useful lives of one year 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 2023, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Primary Government	Balance July 1, 2022	Increases	Decreases	Balance June 30, 2023
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 73,822,335	\$ 17,580	\$ -	\$ 73,839,915
Construction in progress	28,830,664	10,891,856	(4,303,577)	35,418,943
Total capital assets, not being depreciated	<u>102,652,999</u>	<u>10,909,436</u>	<u>(4,303,577)</u>	<u>109,258,858</u>
Capital assets, being depreciated:				
Buildings	18,134,200	621,581	-	18,755,781
Building improvements	32,428,637	3,557,586	-	35,986,223
Infrastructure	22,656,720	517,287	-	23,174,007
Infrastructure improvements	12,708,493	1,898,973	-	14,607,466
Equipment	7,404,433	847,783	(10,315)	8,241,901
Furnishing	489,344	119,920	(9,920)	599,344
Leased assets	233,842	-	-	233,842
Work of arts	662,397	-	-	662,397
Computers	893,890	86,924	(181)	980,633
Vehicles	7,242,331	1,032,931	(12,595)	8,262,667
Total capital assets, being depreciated	<u>102,854,287</u>	<u>8,682,985</u>	<u>(33,011)</u>	<u>111,504,261</u>
Less accumulated depreciation for:				
Buildings	(8,539,435)	(387,859)	-	(8,927,294)
Building improvements	(7,629,548)	(883,244)	-	(8,512,792)
Infrastructure	(7,486,977)	(504,113)	-	(7,991,090)
Infrastructure improvements	(6,846,139)	(802,759)	-	(7,648,898)
Equipment	(6,451,513)	(357,587)	10,315	(6,798,785)
Furnishing	(484,100)	(15,956)	9,639	(490,417)
Leased assets	(77,947)	(77,947)	-	(155,894)
Work of arts	(577,016)	(35,240)	-	(612,256)
Computers	(786,248)	(64,339)	181	(850,406)
Vehicles	(6,536,957)	(274,283)	12,595	(6,798,645)
Total accumulated depreciation	<u>(45,415,880)</u>	<u>(3,403,327)</u>	<u>32,730</u>	<u>(48,786,477)</u>
Total capital assets, being depreciated, net	<u>57,438,407</u>	<u>5,279,658</u>	<u>(281)</u>	<u>62,717,784</u>
Governmental activities capital assets, net	<u>\$ 160,091,406</u>	<u>\$ 16,189,094</u>	<u>\$ (4,303,858)</u>	<u>\$ 171,976,642</u>

9. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

Community development	\$ 356,746
Culture and recreation	382,545
Economic development	96,613
Education	3,132
General government	557,037
Health and welfare	44,804
Public safety	139,030
Public work	<u>1,823,420</u>

Total depreciation expense-governmental activities \$ 3,403,327

<u>Business-type activities</u>	<u>Balance July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2023</u>
Capital assets, not being depreciated:				
Land and construction in progress	\$ 388,790	\$ -	\$ -	\$ 388,790
Total capital assets, not being depreciated	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
Capital assets, being depreciated:				
Buildings	3,537,458	-	-	3,537,458
Building improvements	277,774	973,650	-	1,251,424
Equipment	8,094	3,415	-	11,509
Total capital assets, being depreciated	<u>3,823,326</u>	<u>977,065</u>	<u>-</u>	<u>4,800,391</u>
Less accumulated depreciation for:				
Buildings	(2,303,325)	(88,436)	-	(2,391,761)
Building improvements	(56,556)	(25,309)	-	(81,865)
Equipment	(4,806)	(276)	-	(5,082)
Total accumulated depreciation	<u>(2,364,687)</u>	<u>(114,021)</u>	<u>-</u>	<u>(2,478,708)</u>
Total capital assets, being depreciated, net	<u>1,458,639</u>	<u>863,044</u>	<u>-</u>	<u>2,321,683</u>
Governmental activities capital assets, net	<u><u>\$ 1,847,429</u></u>	<u><u>\$ 863,044</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,710,473</u></u>

9. CAPITAL ASSETS (CONTINUED)

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

Business-type activities

General government	\$ 88,712
Public work	25,309
Total depreciation expense-business-type activities	\$ 114,021

10. LONG-TERM LIABILITIES

Long-term liability activity-governmental funds, for the year ended June 30, 2023, was as follows:

Primary Government	Beginning Balance, as restated	Additions/ Adjustments	Payments/ Reductions	Ending Balance	Due within One Year
Governmental Activities:					
GOBs Bonds and Notes Payable	\$ 36,056,037	\$ 5,058,000	\$ 3,177,222	\$ 37,936,815	\$ 3,811,000
Total long-term debts	36,056,037	5,058,000	3,177,222	37,936,815	3,811,000
Other Long-term Liabilities:					
Claims and judgments	320,000	-	170,000	150,000	-
USDA Community Facilities Loan advances	168,220	301,319	-	469,539	-
Compensated absences	2,774,576	-	108,139	2,666,437	120,000
Christmas bonus	372,459	372,159	372,459	372,159	372,159
Landfill obligation	3,894,883	-	506,090	3,388,793	-
Mortgage payable	3,200,000	-	-	3,200,000	-
CRIM final settlement 2022-23	-	19,653	-	19,653	19,653
Lease liability	146,950	-	91,428	55,522	55,522
Total other long-term liabilities	10,877,088	693,131	1,248,116	10,322,103	567,334
Total noncurrent liabilities, governmental activities	\$ 46,933,125	\$ 5,751,131	\$ 4,425,338	\$ 48,258,918	\$ 4,378,334

- a) **Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

10. LONG-TERM LIABILITIES (CONTINUED)

- b) **Bonds and notes payable-** The Municipality issues general and special obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. Bonds and notes payable outstanding at June 30, 2023, are as follows:

<u>Description</u>	<u>Balance at June 30, 2023</u>
2001 General obligation bond for infrastructure improvements with an original amount of \$310,000, due in installments of \$5,000 to \$30,000 through July 1, 2025; bearing interest at rates ranging from 2.70% to 5.60% (5.60% at June 30, 2023)	\$ 80,000
2002 General obligation bond for infrastructure improvements with an original amount of \$2,850,000, due in installments of \$40,000 to \$250,000 through July 1, 2026; bearing interest at rates ranging from 2.70% to 5.60% (5.60% at June 30, 2023)	885,000
2004 General obligation bond for infrastructure improvements with an original amount of \$3,150,000, due in installments of \$90,000 to \$240,000 through July 1, 2023; bearing interest at rates ranging from 2.36% to 5.25% (5.25% at June 30, 2023)	240,000
2004 General obligation bond for infrastructure improvements with an original amount of \$115,000, due in installments of \$5,000 to \$10,000 through July 1, 2023; bearing interest at rates ranging from 4.17% to 5.25% (5.25% at June 30, 2023)	10,000
2004 General obligation bond for infrastructure improvements with an original amount of \$1,860,000, due in installments of \$115,000 to \$145,000 through July 1, 2023; bearing interest at rates ranging from 2.36% to 5.25% (5.25% at June 30, 2023)	145,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,650,000, due in installments of \$50,000 to \$285,000 through July 1, 2032; bearing interest at rates ranging from 1.48% to 7.00% (6.47% at June 30, 2023)	2,086,028
2008 General obligation bond for infrastructure improvements with an original amount of \$3,265,000, due in installments of \$50,000 to \$215,000 through July 1, 2030; bearing interest at rates ranging from 1.48% to 7.00% (6.47% at June 30, 2023)	1,391,164
2008 Special obligation bond for infrastructure improvements with an original amount of \$3,720,000, due in installments of \$60,000 to \$290,000 through July 1, 2032; bearing interest at rates ranging from 1.48% to 7.00% (6.47% at June 30, 2023)	2,089,632

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10. LONG-TERM LIABILITIES (CONTINUED)

b) Bonds and notes payable (continued)

<u>Description</u>	<u>Balance at June 30, 2023</u>
2009 General obligation bond for infrastructure improvements with an original amount of \$3,395,000, due in installments of \$80,000 to \$250,000 through July 1, 2026; bearing interest at rates ranging from 4.75% to 10.00% (9.75% at June 30, 2023)	\$ 771,835
2010 General obligation bond for infrastructure improvements with an original amount of \$1,820,000, due in installments of \$30,000 to \$135,000 through July 1, 2030; bearing interest at rates ranging from 5.00% to 10.00% (9.75% at June 30, 2023)	886,263
2010 General obligation bond for infrastructure improvements with an original amount of \$1,095,000, due in installments of \$15,000 to \$80,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	658,216
2012 General obligation bond for infrastructure improvements with an original amount of \$1,900,000, due in installments of \$30,000 to \$145,000 through July 1, 2035; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	1,337,523
2012 General obligation bond for infrastructure improvements with an original amount of \$3,305,000, due in installments of \$60,000 to \$270,000 through July 1, 2032; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	1,918,804
2013 General obligation bond for infrastructure improvements with an original amount of \$2,315,000, due in installments of \$55,000 to \$185,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	1,128,471
2013 General obligation bond for operational expenditures with an original amount of \$10,240,000, due in installments of \$150,000 to \$855,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	7,805,000
2012 General obligation bond for infrastructure improvements with an original amount of \$2,185,000, due in installments of \$45,000 to \$185,000 through July 1, 2032; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	1,292,781

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10. LONG-TERM LIABILITIES (CONTINUED)

b) Bonds and notes payable (continued)

<u>Description</u>	<u>Balance at June 30, 2023</u>
2014 General obligation bond for infrastructure improvement with an original amount of \$3,230,000, due in installments of \$70,000 to \$235,000 through July 1, 2031; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	\$ 1,591,552
2014 General obligation bond for infrastructure improvement with an original amount of \$5,565,000, due in installments of \$125,000 to \$330,000 through July 1, 2028; bearing interest at rates ranging from 6.00% to 10.00% (9.75% at June 30, 2023)	1,697,048
2020 General obligation bond for infrastructure improvement with an original amount of \$5,370,000, due in installments of \$285,000 to \$500,000 through July 1, 2033; bearing interest at rates ranging from 6.00% to 12.00% (11.00% at June 30, 2023)	4,780,000
2021 General obligation note for equipment acquisition with an original amount of \$769,498, due in installments of \$102,000 to \$117,498 through January 1, 2028; bearing interest at 2.13% (2.13% at June 30, 2023)	562,498
2022 General obligation note for infrastructure improvement with an original amount of \$3,608,000, due in installments of \$623,000 to \$825,000 through July 1, 2027; bearing interest at 7.00% (7.00% at June 30, 2023)	3,608,000
2022 General obligation note for vehicles and equipment acquisition with an original amount of \$1,450,000, due in installments of \$170,000 to \$250,000 through July 1, 2029; bearing interest at rates ranging from 8.75% to 10.00% (9.50% at June 30, 2023)	1,450,000
Total general obligation bonds and notes in Governmental Activities	<u>\$ 36,414,815</u>

These bonds and notes are payable from the special ad valorem property tax of 4.00% which is restricted for debt service and collected by CRIM and deposited in the CAE Redemption Fund at a private commercial bank. The 2008 Series bond amounting to \$3,720,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

The annual requirement to amortize general and special obligation bonds and notes as of June 30, 2023, follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 3,811,000	\$ 3,084,819
2025	3,650,000	2,880,726
2026	3,962,000	2,548,829
2027	4,021,835	2,200,702
2028	3,957,498	1,849,566
2029-2033	12,956,743	4,891,802
2034-2037	4,055,739	734,613
Total Bonds Payable	<u>\$ 36,414,815</u>	<u>\$ 18,191,057</u>

10. LONG-TERM LIABILITIES (CONTINUED)**c) Section 108 Notes Payable**

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2023</u>
Section 108 Series 2008 A	7-1-2028	5,500,000	5.05%-5.42%	\$ 1,522,000
Total Section 108 notes payable				\$ 1,522,000

The Section 108 Series 2008 note for \$5,500,000 is a financing agreement with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The payment of principal and interest of these notes are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program and from the program income generated from the projects financed with the loans.

Annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 306,000	\$ 72,597
2025	306,000	56,623
2026	306,000	40,482
2027	306,000	24,203
2028	298,000	8,016
Total Notes Payable	\$ 1,522,000	\$ 201,921

- d) Claims and judgments-** Represents the estimated loss of legal cases to be paid subsequent to June 30, 2023. The awarded amount, if any, will be paid with unrestricted funds.
- e) Compensated absences-** The government-wide statement of Net Position includes \$1,451,202 of accrued sick leave benefits, and approximately \$1,215,235 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- f) USDA Community Facilities Loans and Grants -** The Municipality has issued \$469,539 in general obligation bond anticipation notes to the U.S. Department of Agriculture - Rural Development ("USDA-RD") Community Facilities Loan and Grants Programs. They are part of a total note of \$3,011,415 to be issued to finance rural roads improvements. The notes bear interest at 2.375%, due on the date of the final payment issued by USDA-RD to the Municipality, but not exceeding 15 years from the date of the notes. The Municipality intends to refinance these notes on a long-term basis through a \$3,000,000 general obligation bond issuance approved by the Municipal Legislature and the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), payable from the additional special ad valorem property taxes deposited in the "CAE" sinking fund.

10. LONG-TERM LIABILITIES (CONTINUED)

- g) **Landfill obligation**- State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In accordance with Statement No. 18 of the GASB, “*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*”, the Municipality has performed a study of the activities that need to be implemented at the Municipality’s landfill to comply with applicable state and federal regulations. During June 30, 2004, the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total cost of \$963,648. Based on this, the Municipality has recognized \$20,383 as the Municipality’s estimated current cost for landfill closure as of June 30, 2023. The preliminary annual estimate of post closure costs has been adjusted to approximately \$2,794,000 for a period of approximately 20 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2023, the Municipality’s landfill facilities have been closed. The balance of closure and post-closure costs of \$20,383 and \$3,368,410 respectively, are reported in the government-wide statement of net position.
- h) **Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2023 of the Christmas bonus to be paid in December 2023. The outstanding amount is \$372,159.
- i) **Mortgage payable** - In 2016, the Municipality acquired two (2) parcels of land of “Finca La Julia” from the Land Authority of the Commonwealth of Puerto Rico. Parcel #1 was valued at \$1,860,000, and parcel #2 for \$2,140,000 for a total amount of \$4,000,000. The sale agreement establishes that the Municipality will use this land exclusively for the development and operation of the “El Gran Parque Agro y Turístico El Dorado”. A down payment of \$300,000 was made by the Municipality for a mortgage payable total of \$3,700,000. Principal payments will be made by the following terms:
- First installment of \$500,000 on or before July 31, 2021; paid on June 2021,
 - Second installment of \$500,000 on or before July 31, 2026;
 - Third and final installment of \$2,700,000 on or before July 31, 2030.
- This note accrues interest at an annual rate of 3% over the balance due, until principal is paid in full. Interest will be paid quarterly and as of June 30, 2023. The balance as of June 30, 2023, is \$3,200,000.
- j) **Lease liability** - The Municipality leases equipment under various lease agreements with a third party, which generally have terms of five years. Obligations of leases amounted to \$55,522 as of June 30, 2023.
- k) **CRIM final settlement 2022-2023** - Represents the final settlement made by CRIM for the fiscal year 2022-2023. The CRIM reported an excess of advances over actual collections.

11. 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:

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major Fund - General fund:</u>		
Municipal Financing Corporation (COFIM) - Sales and use tax Final Liquidation	\$ 15,695	\$ -
<u>Major Fund - Special revenue fund- other federal grants:</u>		
U.S. Department of Agriculture - Community Facilities Loan and Grants	-	667,136
<u>Major Fund - Disaster grants fund:</u>		
U.S. Department of Homeland Security - Disaster Grants	-	53,212
<u>Other governmental funds:</u>		
P.R. Department of Treasury-Joint Resolution No.123	99,856	-
P.R. Department of Transportation-Cooperative agreements	834,052	-
P.R. Department of Treasury-Joint Resolution No.59	117,323	-
P.R. Department of Treasury-Joint Resolution No.412	177,764	-
P.R. Department of Treasury-Joint Resolution No.125	44,836	-
P.R. Department of Treasury-Joint Resolution No.4272	7,115	-
P.R. Department of Treasury-Joint Resolutions-Others	288,766	-
P.R. Department of Agriculture-Rural Development Corp.	138,055	-
P.R. Department of Labor-Law No. 52	68,151	-
Total	\$ 1,791,613	\$ 720,348

12. 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, 2023, the amount of net investment in capital assets is as follows:

<u>Description</u>	<u>Amount</u>
Capital assets, net	\$ 171,976,642
Outstanding balance on capital related debt	(38,406,354)
Net investment in capital assets	\$ 133,570,288

13. FUND BALANCE (DEFICIT)

As of June 30, 2023, fund balance (deficit) is comprised of the following:

Fund Balance	General Fund	Special Revenue Fund-Head Start	Special Revenue Fund-Other federal grants	ARPA Fund	Disaster Grants Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable for:								
Advances from other funds	\$ 1,042,583	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,042,583
Restricted for:								
Culture and recreation	-	-	-	-	-	-	267,441	267,441
Health, welfare and community development	-	-	-	-	-	-	423,399	423,399
Public safety	-	-	-	-	-	-	2,402,766	2,402,766
Public works	-	-	-	-	-	-	497,868	497,868
Economic development	-	-	-	-	-	-	15,643	15,643
Improvement and construction of facilities	-	-	-	-	-	-	1,158,495	1,158,495
Debt repayment	-	-	-	-	-	5,116,041	-	5,116,041
Committed for:								
General government	2,693,069	-	-	-	-	-	-	2,693,069
Improvement and construction of facilities and general expenditures	11,875,357	-	-	-	-	-	-	11,875,357
Assigned for:								
General government	2,156,702	-	-	-	-	-	-	2,156,702
Public works	1,821,627	-	-	-	-	-	-	1,821,627
Public safety	23,381	-	-	-	-	-	-	23,381
Culture and Recreation	2,001	-	-	-	-	-	-	2,001
Unassigned	<u>3,588,083</u>	<u>-</u>	<u>(845,283)</u>	<u>-</u>	<u>(2,057,745)</u>	<u>-</u>	<u>-</u>	<u>685,055</u>
Total Fund Balance (Deficit)	<u>\$ 23,202,803</u>	<u>\$ -</u>	<u>\$ (845,283)</u>	<u>\$ -</u>	<u>\$ (2,057,745)</u>	<u>\$ 5,116,041</u>	<u>\$ 4,765,612</u>	<u>\$ 30,181,428</u>

14. PROPERTY TAXES

The Municipal Revenue Collection Center ("CRIM") of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2023, are 8.83% for personal property and 10.58% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	4.00%	3.75%
Total tax rate:	9.03%	10.78%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	8.83%	10.58%

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

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

The *Municipal Public Debt Redemption Fund* is a trust fund in which "AAFAF" serves as trustee and a private 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.

14. PROPERTY TAXES (CONTINUED)

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. Since April 2016, Municipal CAE 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. Municipal CAE Tax collections of the MFA/Private Sector Sub-Fund are deposited in 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 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 advances exceed the actual collections a due to CRIM is recorded. As of June 30, 2023, advances exceeded actual collections by \$19,653, which the Municipality recognized in its long-term debt in government-wide financial statements.

15. MUNICIPAL LICENSE TAXES

Municipal license taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2023, the tax rates were as follows:

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$6,766,069 is recorded as unearned revenues.

16. 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 **Autonomous Municipality of Dorado** 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 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 **Autonomous Municipality of Dorado** 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 **Autonomous Municipality of Dorado** 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 \$1,422,086 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,

16. SALES AND USE TAXES (CONTINUED)

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, 2023, the Municipality recorded as revenues \$4,687,248 in the general fund.

17. INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL 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)	\$ 994,876
Extraordinary fund for waste collection and disposal and implementation of recycling programs in municipalities – Act. No. 53	676,236
Municipalities inflation fund	296,747
Emergency fund – Hurricane Fiona	250,000
Reimbursement ASES retentions	248,008
Total	\$ 2,465,867

The Municipality reported electric power revenues and expenses of the CELI and the municipal public lightning as estimated by PREPA, 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.

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

Description	Amount
Medical emergency services	\$ 94,295
Licenses and permits	68,201
Waste disposal	35,560
Total fees and charges for services	\$ 198,056
Traffic fines	\$ 2,673
Total fines	\$ 2,673

18. RETIREMENT PLAN

1. *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 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 employers 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

18. RETIREMENT PLAN (CONTINUED)

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 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 is 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”).

2. 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 with the specific benefit structures under Act 447, Act 1, Act 305 and Act

18. RETIREMENT PLAN (CONTINUED)

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 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 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 2022-2023, the Municipality was billed and recorded as PayGo expenditures the amount of \$1,331,080.

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

18. RETIREMENT PLAN (CONTINUED)

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. 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.

3. Pension liabilities, pension expense, and deferred outflows and deferred inflows of resources related to pensions; other required disclosures under GASB Statement No. 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 PRGERS. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017, are administered by the new Retirement Board through a trust fund that does not meet the requirements of **GASB Statement No. 68** as of July 1, 2017. 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 PRGERS has not provided to the Municipality the audited financial information necessary for the proper recognition and reporting of its total pension liability as of June 30, 2023. As a result, management has not been implemented 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. 68**. 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.

19. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**Plan description**

The Municipality is a participating employer in the Employees' 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 full-time 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 PRGERS issued its audited financial statements as of and for the fiscal year ended June 30, 2022, but has not provided to the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2022 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", as of June 30, 2023. As a result, amounts 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.

20. TAX ABATEMENTS

Municipal Agreements

From time-to-time the **Autonomous Municipality of Dorado** 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 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 abated during fiscal year 2023 was approximately \$743,142.

For purposes of this disclosure, the Municipality chooses to disclose all known agreements of over \$10,000, which are detailed below:

In December 2009, the Municipality, through Ordinance 54 of 2009, entered into an agreement with a food distributor, to build a warehouse. For a period of ten (10) years, the Municipality will rebate 50% of both personal and real property and 50% of municipal license taxes. In December 2020 the agreement was renewed, granting the food distributor an additional 20 years of tax rebate. In this renewed agreement the Municipality will rebate 50% of both personal and real property. The amount of the rebate for 2023 for personal property taxes was \$743,142.

The GASB Statement No. 77 requires the Municipality to disclose tax abatements granted by other governmental entities that reduce the tax revenue of the Municipality. The Commonwealth of Puerto Rico (and its instrumentalities) grant such abatements and are listed below. The Statement requires the Municipality to disclose the amount of the taxes abated during the fiscal year. For purposes of this disclosure, the Municipality chooses to disclose all known agreements to be better able to track agreements.

Commonwealth of Puerto Rico Agreements

The government of the Commonwealth of Puerto Rico has enacted various laws in order to provide economic incentives to the industries performing business in the Island. Under these laws, the government promotes the creation of new employments, the investment in the acquisition of equipment, the investment in the modernization and improvement of existing facilities and the construction of new infrastructure. In order to assess the economic development expected, the government entered into agreements granting to eligible businesses and companies, tax exemptions on income taxes, property taxes (real and personal). Also, exemptions are granted on municipal licenses taxes, construction excise taxes and other municipal income taxes levied by municipal ordinances.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

A. Act 60-2019 on July 1, 2019 "Puerto Rico Incentive Code"

On July 1, 2019, Act 60 was enacted to adopt the "Puerto Rico Incentives Code" (the Code); consolidate the dozens of decrees, incentives, subsidies, refunds, or existing tax or financial benefits; promote the right environment, opportunities and tools to promote the sustainable economic development of Puerto Rico; establish the legal and administrative framework that will govern the request, evaluation, grant or denial of incentives by the Government of Puerto Rico; promote the effective and continuous measurement of the costs and benefits of the incentives granted to maximize the impact of the investment of public funds; give stability, certainty and credibility to the Government of Puerto Rico in everything related to private investment; improve the economic competitiveness of Puerto Rico. The following dispositions are included in the Code:

Subtitle B – Chapter 6 and Subtitle C- Chapter 2 (previously ACT 73 of 2008 - "Economic Incentives Act for the Development of Puerto Rico")

Purpose: Provide the adequate environment and opportunities to continue developing a local industry; 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 these subtitles 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, 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 Electric Power Authority for net electric power consumption.
- Fifty percent (50%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance.
- Seventy-five percent (75%) exemption on municipal and Commonwealth taxes on real and personal property.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

A. Act 60-2019 on July 1, 2019 "Puerto Rico Incentive Code" (continued)

Subtitle B- Chapter 5 and 11, Subtitle C- Chapter 1 and Subtitle E- Chapter 1 (previously ACT 74 of 2010 - "Puerto Rico Tourism Development Act of 2010")

Purposes:

- To make Puerto Rico a world-class tourist destination.
- To ensure adequate conditions for the continuous development and worldwide competitiveness of Puerto Rico's hotel industry.
- To provide the environment to continuously raise local and foreign capital for investment in tourism projects.
- To improve the incentives offered to the Puerto Rican tourist industry as well as other industries such as public carriers of air transportation services, carriers of maritime transportation services, and the cruise industry of Puerto Rico according to the evolution of the best tourist products offered, the challenges faced, and the opportunities offered by today's world.
- To reduce the high costs of construction and operation of tourism-related businesses in Puerto Rico.
- To take action to reduce energy costs through various renewable source alternatives.

Tax Benefits/Exemptions:

- Tourism development income shall be exempt from income taxes pursuant to the following terms and conditions: (i) For all tourist activities not established in Vieques or Culebra, the exemption percentage on said income shall be of up to ninety-six percent (96%). (ii) For all tourist activities established in Vieques and Culebra, the exemption percentage on said income shall be of up to one hundred percent (100%).
- Any property devoted to a tourist activity shall enjoy up to a seventy-five percent (75%) exemption on all municipal and state taxes on real and personal property for a period of ten (10) years.
- New and existing businesses shall enjoy up to fifty percent (50%) exemption of municipal license taxes, excise taxes, and other municipal taxes.
- Shall enjoy up to a one hundred percent (100%) exemption from the payment of the taxes on use and consumption items.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

A. Act 60-2019 on July 1, 2019 "Puerto Rico Incentive Code" (continued)

Subtitle B- Chapter 5 and 11, Subtitle C- Chapter 1 and Subtitle E- Chapter 1 (previously ACT 74 of 2010 - "Puerto Rico Tourism Development Act of 2010") (continued)

Tax Benefits/Exemptions (continued):

- All exempt businesses and their contractors or subcontractors shall enjoy up to seventy-five percent (75%) exemption on any tax, levy, fee, license, excise tax, rate, or charge for the construction of works to be devoted to a tourist activity within a municipality, imposed by any ordinance of any municipality.
- Public carriers of air transportation services, carriers of maritime transportation services, and the cruise industry of Puerto Rico shall enjoy up to a one hundred percent (100%) exemption from the payment of the taxes for all concepts.
- Tax credit for tourism investment from thirty to forty percent (30-40%) of the total cost of the tourism project.
- Puerto Rico cruise industry has access to the Economic Incentive Fund administrated by the Department of Economic Development and Trade ("DDEC").

Subtitle B- Chapter 3 and Subtitle E- Chapter 1 (previously ACT 20 of 2012 - "Act to Promote the Export of Services")

Purpose: Provide the adequate environment and opportunities to develop Puerto Rico as an international service center, encourage local professionals to stay and return, and attract foreign capital.

Tax Benefits/Exemptions:

- Eligible businesses shall be subject to a fixed income tax rate of four percent (4%) on income. However, the fixed income tax rate for a taxable year shall be reduced by one percent (1%) when certain conditions are met.
- Businesses shall enjoy up to fifty percent (50%) exemption of municipal license taxes.
- Personal or real property used in the operation of the activity covered by a decree, shall enjoy seventy-five percent (75%) of the exemption on municipal and state taxes for a period of fifteen (15) years.
- Access to the Economic Incentive Fund administrated by the Department of Economic Development and Trade ("DDEC").

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

A. Act 60-2019 on July 1, 2019 “Puerto Rico Incentive Code” (continued)

Subtitle B- Chapter 8 (previously ACT 225 of 1995, as amended - “Agricultural Tax Incentive Act”)

Purpose: To establish public policy in the agricultural sector and other related economic sectors. Also to establish the requirements to qualify “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.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used in the agricultural business.
- No “bona fide farmer” shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

The Incentive Code will allow the types of incentives that are now granted to be standardized, and those risky incentives that have historically resulted in losses or that have adversely impacted Puerto Rico’s economy to be minimized.

The Incentives Code recognizes that it is essential to promote the effective and continuous measurement of the costs and benefits of the incentives granted, in order to determine the cash that is invested vis a vis what the treasury receives. Therefore, the new Incentive Code will also incorporate provisions to measure the return on investment (ROI) and keep updated data on that return by economic sector.

The Incentives Code will facilitate the analysis of our incentives to determine the desirability of maintaining, modifying, or discontinuing any incentive that proves to be obsolete, or consequently, that has resulted in negative performance. The analysis, in addition, will allow to determine which incentives can provide positive performance based on specific data, if government resources

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

A. Act 60-2019 on July 1, 2019 “Puerto Rico Incentive Code” (continued)

should be redirected to other industries to maximize performance and stimulate productivity, and even, will identify the need to create new incentive mechanisms. New incentives will be evaluated and approved through mechanisms and processes established in the regulation adopted by the Department of Economic Development and Trade (“DDEC”), based on complete analyzes that allow informed decisions. This structure will allow processes to be improved, incentives based on ROI, and economic priorities to be analyzed, and the desirability of continuing to grant the incentive to be determined within a reasonable time.

In line with the above, an incentive evaluation model will also be created, in accordance with the needs of the Puerto Rican economy, to measure the effectiveness of the program based on the annual reports submitted by the beneficiaries. The analysis of the reports will allow stimulus programs to be improved and will ensure that incentives are allocated and used to maximize the economic impact on the island. Likewise, the evaluation will facilitate compliance with the terms and conditions of the incentives granted, including the measurement of risk and return on investment of such stimuli, in line with the public policy of economic development.

As an important element to ensure rigor in the application of standards and transparency, a single office will be designated to monitor compliance aspects. For these purposes, the Tax Exemption Office, now the Incentive Office will become part of the DDEC and assume other responsibilities in accordance with the new Incentive Code.

B. 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 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.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

B. Act 135 of 1998, as amended – “Tax Incentives Act” (continued)

Tax Benefits/Exemptions (continued):

- 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.
- 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.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

B. Act 135 of 1998, as amended – “Tax Incentives Act” (continued)

Tax Benefits/Exemptions (continued):

- 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 the products during the year 2000. This deduction is granted only for purchases of products that have been manufactured by companies not related to the tax-exempt business.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.
- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance or resolution. However, tax-exempt businesses described in paragraph (2) of item (a) of Section (3) of this Act shall be granted a seventy-five (75%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes; and for those described in paragraph (3) of item (a) of Section (3) of 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).

C. Act 255 of 2002 – “Savings and Loans Associations Act, as amended”

Purpose: To permit the free offering of products and services by savings and loans associations under terms and conditions similar to the other participants of the financial markets; to promote the offering of financial resources and services to small and medium-sized businesses through savings and loans structures; and to facilitate the economic integration of the savings and loans associations with other economic and financial sectors.

20. TAX ABATEMENTS (CONTINUED)

Commonwealth of Puerto Rico Agreements (continued)

C. Act 255 of 2002 – “Savings and Loans Associations Act, as amended” (continued)

Tax Benefits/Exemptions:

- The savings and loans associations, their subsidiaries or affiliates, as well as the revenue of all of their activities/operations, their assets, capital, reserves and surplus of income, will be exempt from the payment of income taxes, property taxes, state excise taxes or of any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions, except for the sales and use tax established in the Sections 4020.01 and 4020.02 of the Puerto Rico Internal Revenue Code; the tax authorized by Section 6080.14; the taxes established in Sections 4210.01, 4210.02 and 4210.03; and the excise taxes under Chapter 2 of Subtitle C of Act 1 of 2011.
- All shares and securities issued by the associations, their subsidiaries and affiliates, as well as the dividends and interest paid on them, will be exempt of any type of tax assessment, including income, property, excise, license or any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions.
- Exemption from the payment of state and municipal license and excise taxes, rights, charges, permits and registration fees.

D. Act 168 of 1968, as amended – “Act to Grant Tax Exemptions to Hospitals”

Purpose: To grant tax incentives to hospitals and other applicable health providers' facilities in order to promote their development by providing the ability to raise funds to invest on their own operational needs.

Tax Benefits/Exemptions:

- Tax credit up to fifteen percent (15%) of the total eligible payroll expense to be used to reduce up to fifty percent (50%) of income taxes over eligible health service revenues.
- Exemption of a hundred percent (100%) from the payment of real and personal property over assets used to provide health services.
- Exemption of a hundred percent (100%) from the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical diagnostics and treatments.
- No hospital or eligible health service facility shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

20. TAX ABATEMENTS (CONTINUED)**Commonwealth of Puerto Rico Agreements (continued)****E. 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.

The information presented below has been compiled, after reasonable attempts to obtain the required information were made. The Municipality makes no representation that this information is correct, complete, or that individual circumstances have not changed subsequent to the application for abatements.

Industry	Real Property	Personal Property	Municipal License Tax	Total Tax Abated per Industry	% of total abatement per Industry
Industrial companies and business	\$ (327,775)	\$ (3,895,780)	\$(1,034,825)	\$ (5,258,380)	36%
Commercial companies and business	(672)	(4,727,140)	(625,595)	(5,353,407)	36%
Other industries and business	(640,616)	(1,019,372)	-	(1,659,988)	11%
Pharmaceuticals	(531,642)	(526,689)	(51,302)	(1,109,633)	7%
Hotels and professional services	(1,354,693)	(60,248)	-	(1,414,941)	10%
	\$(2,855,398)	\$(10,229,229)	\$(1,711,722)	\$(14,796,349)	100%

21. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to its private insurance broker so they can request quotes for the various insurance policies. The insurance companies that meet the Municipality's criteria are selected for each fiscal year. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

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, 2023, 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, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that would not be covered by insurance. However, it is the opinion of the Municipality and the legal counsel that based on their experience, such actions and the potential liabilities will not impair the Municipality's financial position.

C. Operating leases:

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

D. Financial leases:

The Municipality leases office equipment under various lease agreements with a third party, which generally have terms of five years. Obligations for these leases totaled \$55,522 as of June 30, 2023.

Maturity of the lease liabilities as of June 30, 2023, is as follows:

<u>Year</u>	<u>Principal payments</u>	<u>Interest payments</u>	<u>Total</u>
2024	<u>55,522</u>	<u>948</u>	<u>56,470</u>
Total	<u>\$ 55,522</u>	<u>\$ 948</u>	<u>\$ 56,470</u>

23. FISCAL AND ECONOMIC CONDITIONS

The Municipality faces fiscal and economic risks and challenges due to different conditions including, among others, the elimination of Commonwealth's subsidy transfer, the lack of financing alternatives from commercial banking, the Municipalities Inflation Fund and Hurricane Fiona (DR-4671-PR):

1. **Elimination of Commonwealth's subsidy transfer**

The Commonwealth is currently facing a profound fiscal and economic crisis and has incurred recurring deficits, has a negative financial condition, has not been able to access the credit markets, and has disclosed that a substantial doubt exists about its ability to continue as a going concern. As a result of this situation, and pursuant to PROMESA, the Oversight Board designated the Commonwealth as a covered entity. Furthermore, on May 3, 2017, a petition of relief was filed by the Oversight Board 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 latest revised Fiscal Plan 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. 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 will not be reduced in order 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 the subsidy transfer in fiscal year 2024-2025. The 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 Commonwealth's subsidy transfer on its operations in future fiscal years.

2. **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 financing.

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 federal loans from Rural Development, HUD (Section 108) and FEMA. Notwithstanding, the lack of

23. FISCAL AND ECONOMIC CONDITIONS (CONTINUED)**2. Lack of Financing Alternatives from Commercial Banking (continued)**

additional financing alternatives limits the capacity of the municipalities of performing capital projects and improvements including buildings, recreational facilities and infrastructure.

3. 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 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.

23. FISCAL AND ECONOMIC CONDITIONS (CONTINUED)

3. Implementation of Eight Amended POA (continued)

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

4. Hurricane Fiona (DR-4671-PR)

On September 18, 2022, Hurricane Fiona affected Puerto Rico. The Hurricane caused significant economic and infrastructure damages disrupting the daily lives of approximately 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations.

An emergency, and subsequently a mayor disaster declaration was issued by the U.S. President for the entire island of Puerto Rico. Therefore, the Municipality is eligible to apply for assistance to mitigate the disaster caused by Hurricane Fiona.

The Municipality is performing an assessment of all suffered damages in its public facilities and infrastructure, in order to apply for Federal and State assistance. As of June 30, 2023, the Federal Emergency Management Agency (FEMA) has not obligated funds for this disaster.

24. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table discloses the net change in fund balances and net position at the beginning of the year as previously reported in the basic financial statements. The beginning balances have been restated as follows:

Description	Fund Financial Statements		Government- Wide Financial Statements-Net Position
	Special Revenue Fund Other Federal Grants	Other Governmental Funds	Governmental Activities
Total fund balances / net position, at beginning of year, as previously reported	\$ -	\$ 5,208,939	\$ 150,009,401
Adjustment of amount due to USDA Community Facilities Loans as per agency confirmation	-	-	(168,220)
To adjust accounts receivable and deferred inflows of resources	31,039	-	31,039
Reclassification of fund balance	(31,039)	31,039	-
Fund balance/net position, beginning, as restated	\$ -	\$ 5,239,978	\$ 149,872,220

25. SUBSEQUENT EVENTS

The Municipality has evaluated subsequent events through March 7, 2024, which is the date the financial statements were available to be issued. Management is not aware of any subsequent event that requires adjustment or disclosure in the financial statements or its related notes, except for the following:

On January 25, 2024, the Municipal Legislature of the **Autonomous Municipality of Dorado** approved the issuance of a general obligation municipal note for the amount of \$13,667,000. The proceeds of this note will be used for construction projects throughout the Municipality. The maturity date of said note is July 2030.

On October 5, 2022, the Municipal Legislature approved the issuance of a municipal general obligation note and a note purchase agreement with a commercial bank, for the amount of \$4,000,000. The note will then be structured as a revolving line of credit to provide funds to the Municipality to finance certain reconstruction and permanent improvements to be undertaken by the Municipality to remedy the damage caused to certain municipal facilities as a result of Hurricane Maria, which costs are eligible for reimbursement by the Federal Emergency Management Agency and other issuance costs. However, in February 2024, after management analysis of the cash flows needed to complete Hurricane Maria reconstruction projects, the Municipality determined to request the cancellation of the note.

End of Notes.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

Budgetary Comparison Schedule - General Fund
For the Fiscal Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 11,420,816	\$ 11,420,816	\$ 11,420,816	\$ -
Municipal license taxes	5,704,860	5,704,860	8,263,780	2,558,920
Sales and use taxes	3,636,000	3,636,000	4,308,335	672,335
Licenses and permits and other taxes	3,050,100	3,050,100	4,266,587	1,216,487
Charges for services	25,000	25,000	198,056	173,056
Intergovernmental	997,876	997,876	997,876	-
Fines and forfeitures	4,100	4,100	2,673	(1,427)
Rent of property	145,000	145,000	160,069	15,069
Interest	18,800	18,800	8	(18,792)
Miscellaneous	405,000	405,000	843,686	438,686
Total revenues	25,407,552	25,407,552	30,461,886	5,054,334
Budget carryover (1)	-	4,359,944	4,359,944	-
Total revenues and budget carryover	25,407,552	29,767,496	34,821,830	5,054,334
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	15,777,139	17,512,032	16,373,732	1,138,300
Public safety	2,001,909	2,256,024	1,608,230	647,794
Public works	5,851,788	8,049,009	6,826,355	1,222,654
Health and welfare	1,186,507	1,271,123	429,654	841,469
Culture and recreation	590,209	679,308	586,715	92,593
Total expenditures and encumbrances	25,407,552	29,767,496	25,824,686	3,942,810
Excess (deficiency) of revenues over (under) expenditures and encumbrances	\$ -	\$ -	\$ 8,997,144	\$ 8,997,144
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 34,821,830
Differences - budget to USGAAP:				
Non-budgeted transfer in				6,906,431
Non-budgeted revenues				(782,811)
GAAP adjustments to revenues				903,743
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 41,849,193
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 25,824,686
Differences - budget to GAAP:				
Non-budgeted expenditures				12,231,445
Non-budgeted transfer out				559,027
Prior year encumbrances recorded as current year expenditures for GAAP basis				4,089,433
Current year encumbrances recorded as expenditures for budgetary purposes				(4,003,711)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				\$ 38,700,880

(1) Represents fund balance carried over from prior year.

See notes to the Budgetary Comparison Schedule-General Fund

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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. 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 designations 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 at June 30, 2023 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2023.

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		14,871	
Line Item No.	Description	Housing Choice Vouchers	Totals
	Balance Sheet		
111	Cash - unrestricted	\$ 252,166	\$ 252,166
113	Cash - other restricted	\$ 83,476	\$ 83,476
100	Total cash	\$ 335,642	\$ 335,642
121	Accounts receivable - PHA projects	\$ -	\$ -
122	Accounts receivable - HUD other projects	\$ -	\$ -
125	Accounts receivable - miscellaneous	\$ -	\$ -
126.2	Allowance for doubtful accounts - other	\$ -	\$ -
128	Fraud recovery	\$ 104,738	\$ 104,738
128.1	Allowance for doubtful accounts - fraud	\$ (47,874)	\$ (47,874)
120	Total receivables, net of allowance for doubtful accounts	\$ 56,864	\$ 56,864
144	Inter program - due from	\$ -	\$ -
150	Total Current Assets	\$ 392,506	\$ 392,506
164	Furniture, equipment and machinery - administration	\$ 34,059	\$ 34,059
166	Accumulated depreciation	\$ (12,170)	\$ (12,170)
160	Total capital assets, net of accumulated depreciation	\$ 21,889	\$ 21,889
180	Total Non-current Assets	\$ 21,889	\$ 21,889
190	Total Assets	\$ 414,395	\$ 414,395
200	Deferred Outflow of Resources	\$ -	\$ -
290	Total Assets and Deferred Outflow of Resources	\$ 414,395	\$ 414,395
312	Accounts payable <= 90 days	\$ 4,957	\$ 4,957
313	Accounts payable > 90 days past due	\$ -	\$ -
321	Accrued wage/payroll taxes payable	\$ 14,603	\$ 14,603
322	Accrued compensated absences - current portion	\$ -	\$ -
331 - 030	Accounts payable - HUD PHA programs - Other	\$ -	\$ -
332	Accounts Payable - PHA Projects	\$ -	\$ -
333	Accounts payable - other government	\$ 58,364	\$ 58,364
341	Tenant security deposits	\$ -	\$ -
342	Unearned Revenue	\$ -	\$ -
345	Other current liabilities	\$ -	\$ -
347	Inter-program - due to	\$ -	\$ -
348	Loan Liability - current	\$ -	\$ -
310	Total Current Liabilities	\$ 77,924	\$ 77,924
353	Non-current liabilities - other	\$ 38,362	\$ 38,362
354	Accrued compensated absences - non current	\$ -	\$ -
350	Total Non-current Liabilities	\$ 38,362	\$ 38,362
300	Total Liabilities	\$ 116,286	\$ 116,286
400	Deferred Inflow of Resources	\$ -	\$ -
508.4	Net Investment in Capital Assets	\$ 21,889	\$ 21,889
511.4	Restricted Net Position	\$ 83,476	\$ 83,476
512.4	Unrestricted Net Position	\$ 192,744	\$ 192,744
513	Total Equity/Net Position	\$ 298,109	\$ 298,109
600	Total Liabilities, Deferred Inflows of Resources and Equity/Net Position	\$ 414,395	\$ 414,395

See notes to the Financial Data Schedule

		14,871	
Line Item No.	Description	Housing Choice Vouchers	Totals
	Income Statement		
70600-010	Housing assistance payments	\$ 1,381,767	\$ 1,381,767
70600-020	Ongoing administrative fees earned	\$ 230,395	\$ 230,395
70600	HUD PHA operating grants	\$ 1,612,162	\$ 1,612,162
71100-010	Housing Assistance Payment	\$ -	\$ -
71100-020	Administrative Fee	\$ -	\$ -
71100	Investment income - unrestricted	\$ 9,200	\$ 9,200
71400-010	Housing Assistance Payment	\$ -	\$ -
71400-020	Administrative Fee	\$ -	\$ -
71400	Fraud recovery	\$ 11,052	\$ 11,052
71500	Other revenue	\$ 61,627	\$ 61,627
71600	Gain or loss on the sale of capital assets	\$ -	\$ -
72000-010	Housing Assistance Payment	\$ -	\$ -
72000-020	Administrative Fee	\$ -	\$ -
72000	Investment income - restricted	\$ 791	\$ 791
700	Total Revenue	\$ 1,694,832	\$ 1,694,832
91100	Administrative salaries	\$ 116,544	\$ 116,544
91200	Auditing fees	\$ -	\$ -
91500	Employee benefit contributions- administrative	\$ 15,614	\$ 15,614
91600	Office expenses	\$ 58,601	\$ 58,601
91000	Total Operating - Administrative	\$ 190,759	\$ 190,759
96200	Other general expenses	\$ 7,743	\$ 7,743
96210	Compensated absences	\$ -	\$ -
96600	Bad debt - other	\$ -	\$ -
96000	Total Other General Expenses	\$ 7,743	\$ 7,743
96900	Total Operating Expenses	\$ 198,502	\$ 198,502
97000	Excess Revenue Over Operating Expenses	\$ 1,496,330	\$ 1,496,330
977300-020	Home-Ownership	\$ -	\$ -
97300-050	All Other	\$ -	\$ -
97300-041	HAP Portability-out	\$ -	\$ -
97300	Housing assistance payments	\$ 1,520,209	\$ 1,520,209
97350	HAP Portability-in	\$ 18,172	\$ 18,172
97400	Depreciation expense	\$ 6,085	\$ 6,085
97500	Fraud losses	\$ -	\$ -
90000	Total Expenses	\$ 1,742,968	\$ 1,742,968
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (48,136)	\$ (48,136)
11030	Beginning equity	\$ 346,245	\$ 346,245
11040-010	Prior period adjustments and correction of errors - Editable	\$ -	\$ -
11040	Prior period adjustments, equity transfers, and correction of errors	\$ -	\$ -

See notes to the Financial Data Schedule

		14.871	
Line Item No.	Description	Housing Choice Vouchers	Totals
11170	Administrative Fee Equity	\$ 214,633	\$ 214,633
11180	Housing Assistance Payments Equity	\$ 83,476	\$ 83,476
11190	Unit Months Available	3,324	
11210	Unit Months Leased	2,942	

See notes to the Financial Data Schedule

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to, and does not present, the financial position and changes in net position of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF
DORADO**

**Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2023**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-through Entity Identifying Number	Pass-through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:				
Direct Program:				
Community Facilities Loans and Grants	10.766	N/AV	\$ -	\$ 1,146,603
Pass-through the Commonwealth of Puerto Rico - Department of Education: Child and Adult Care Food Program	10.558	N/AV	-	283,548
Total U.S. Department of Agriculture			-	1,430,151
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Direct Program:				
Community Development Block Grant - Section 108 Loan Guarantees	14.248	N/A	-	608,132
Section 8 Housing Choice Vouchers Program	14.871	RQ-015	-	1,612,162
Pass-through Puerto Rico Department of Housing: Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program)	14.228	N/AV	-	292,774
Community Development Block Grant/States Program (SBGP) and Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program)-CDBG-DR	14.228	N/AV	-	147,495
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan: Housing Opportunities for Persons with AIDS (HOPWA)	14.241	N/AV	-	14,480
Total U.S. Department of Housing and Urban Development			-	2,675,043
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Program:				
Federal Transit - Formula Grants (Urbanized Area Formula Programs)	20.507	PR-90-X341/ PR-2019-038	-	4,500
COVID-19 Federal Transit - Formula Grants	20.507	N/A	-	981,898
Total U.S. Department of Transportation			-	986,398
U.S. DEPARTMENT OF THE TREASURY:				
Direct Program:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	1,666,016
Pass-through Puerto Rico Fiscal Agency and Financial: Advisory Authority ("AAFAF"):				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	-	100,672
Pass-through Puerto Rico Fiscal Agency and Financial: Advisory Authority ("AAFAF"):				
Coronavirus Relief Fund (CRF)	21.019	N/AV	-	481,214
Pass-through Puerto Rico Health Department: Coronavirus Relief Fund (CRF)	21.019	N/AV	-	127,723
Total U.S. Department of the Treasury			-	2,375,625
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Pass-Through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)				
Special Programs for Aging - Title III, Part B - Supportive Services and Seniors Center	93.044	N/AV	-	469,835
Nutrition Services Incentive Program	93.053	N/AV	-	98,477
<u>Head Start Cluster:</u>				
Direct Program:				
Early Head Start	93.600	02CH011381-01-02	-	1,323,778
Early Head Start Disaster Recovery from Hurricanes Harvey, Irma and Maria	94.356	02TD000030-01-01	-	1,627,665
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):				
Early Head Start Program	93.600	02CH0210503-05-00EH	-	518,126
COVID-19 Early Head Start Program	93.600	02CH010503-03-04-04HS	-	9,000
Head Start Program	93.600	02CH0210503-05-00AD	-	4,285,284
Head Start Disaster Recovery from Hurricanes Harvey, Irma and Maria	93.356	02TD000135-01	-	593,263
Total U.S. Department of Health and Human Services:			-	8,925,428
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through the Government of Puerto Rico Central Recovery and Reconstruction Office:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA 4339-DR-PR	-	3,124,242
Total U.S. Department of Homeland Security:			-	3,124,242
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 19,516,887

The accompanying notes are an integral part of this schedule.

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, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform 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.

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

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

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:

- **Section 8 Housing Choice Voucher Program (HCV)**. Expenditures are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net Annual Contribution Contract (ACC) subsidy for the PHA’s fiscal period.
- **Public assistance grants (FEMA)**. Expenditures are recognized in the period when: (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.
- **Loans or loans guarantee programs**. Expenditures equal the value of new loans made or received during the audit period plus the beginning of the audit period balance of outstanding loans from previous years for which the federal government imposes continuing compliance requirements. For loans with no imposed continuing compliance requirements, expenditures are recognized when the related costs financed with loan proceeds are incurred.

3. INDIRECT COSTS

The Municipality elected not to use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2023.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule are included in the Head Start Fund, American Rescue Plan Act Fund, Disaster Grant Fund and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the fund's financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Head Start Fund	Special Revenue Fund- Other Federal Grants	ARPA Fund	Disaster Grants Fund	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 8,640,664	\$ 4,373,131	\$ 1,766,688	\$ 3,124,242	\$ 1,612,162	\$ 19,516,887
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	-	-	-	-	130,806	130,806
Reimbursement of prior year expenditures	-	(252,165)	(594,567)	-	-	(846,732)
Business-type activity expenditures	-	-	-	(650,119)	-	(650,119)
Non-federal awards expenditures	-	611	-	-	3,891,504	3,892,115
Total expenditures per fund statements	<u>\$ 8,640,664</u>	<u>\$ 4,121,577</u>	<u>\$ 1,172,121</u>	<u>\$ 2,474,123</u>	<u>\$ 5,634,472</u>	<u>\$ 22,042,957</u>

5. OUTSTANDING LOAN OF FEDERAL FUNDS

The following is a summary of outstanding loans at cost by Assistance Listing Number as of June 30, 2023. Federal funded loans provided under these programs are included as expenditure on the Schedule of Expenditure of Federal Awards. Per Uniform Guidance, loans proceed that were received and expended in prior years are not considered federal awards expended (and thus not shown on the schedule of expenditures of federal awards) as those loans do not include continuing compliance requirements other than repayment of the loans. The Municipality is required to identify in the Notes to the Schedule of Expenditures of Federal Awards the balances outstanding at the end of the period.

The following represents the loans outstanding balance as of June 30, 2023:

Assistance Listing Number	Program Name	Loan Outstanding Balance
14.248	Community Development Block Grants-Section 108 Loan Guarantee	<u>\$ 1,522,000</u>

6. DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS) (ALN 97.036)

In September 2022, the Municipality was impacted by Hurricane Fiona, a major category hurricane, causing public and private property damage and disrupting municipal operations. The current year SEFA does not report expenditures related to the disaster since the Municipality and FEMA are still evaluating the damages. No Project Worksheets (PW) has been approved as of June 30, 2023.



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 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
Autonomous Municipality of Dorado
Dorado, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado**, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the **Autonomous Municipality of Dorado's** basic financial statements, and have issued our report thereon dated March 7, 2024.

The Employees' Retirement System (ERS) has not provided the audited financial and technical information necessary for the proper recognition and reporting of its total pension liability and total OPEB liability as of June 30, 2023. As a result, management has not implemented the accounting and financial reporting requirements for pensions as set forth in the GASB Statement No. 73 and GASB Statement No. 75. Also, an emphasis-of-matter paragraph was included for a restatement of prior year net position and fund financial statement fund balance.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Dorado'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

**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 Internal Control over Financial Reporting (continued)

not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item **2023-001** that we consider to be significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Dorado'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 item **2023-001**.

Autonomous Municipality of Dorado's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the **Autonomous Municipality of Dorado's** response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The **Autonomous Municipality of Dorado'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.

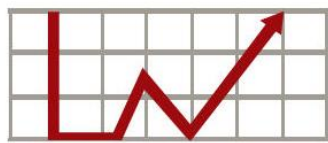

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2024

Stamp No. E537151 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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



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 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
Autonomous Municipality of Dorado
Dorado, Puerto Rico**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** major federal programs for the year ended June 30, 2023. The **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado** 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **Autonomous Municipality of Dorado** 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 **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado'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)**

Auditor's 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 **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado'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 **Autonomous Municipality of Dorado's** internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

**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

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.

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

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

We noted certain other matters that we reported to management of the **Autonomous Municipality of Dorado's** in a separate letter dated March 7, 2024.

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.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2024

Stamp No. E537152 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



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

Section I – Summary of Auditors' Results

Financial Statements

Opinion Units:

Governmental Activities
Business-type Activities
General Fund
Special Revenue Fund-Head Start Program
Special Revenue Fund-Other Federal Grants
American Rescue Plan Act Funds
Disaster Grants Fund
Debt Service Fund
Commercial Pavilion Rafael Hernández Colón
Aggregate Remaining Fund Information

Type of Opinions:

Qualified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified
Unmodified

Internal control over financial reporting:

Material weakness identified?

Yes ☐ No ☒

Significant deficiencies identified not considered to be material weaknesses?

Yes ☒ None reported ☐

Noncompliance material to financial statements noted?

Yes ☒ No ☐

Federal awards

Internal Control over major programs:

Material weakness identified?

Yes ☐ No ☒

Significant deficiencies identified not considered to be material weaknesses?

Yes ☐ None reported ☒

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Section 200.516 (a)?

Yes ☐ No ☒

Federal awards (continued)

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants
20.507	Federal Transit – Formula Grants
21.027	Coronavirus State and Local Fiscal Recovery Funds
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
<i>Head Start Cluster:</i>	
93.356	<i>Head Start Disaster Recovery from Hurricanes Harvey, Irma and Maria</i>
93.600	<i>Head Start Program</i>
93.600	<i>Early Head Start Program</i>

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 **2023-001**

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

Type of finding: **Significant Deficiency in Internal Control (SD), Instance of Noncompliance (NC)**

This finding is similar to prior-year finding(s) 2020-001, 2021-001, 2022-001.

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 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, 2023 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 non-employer 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.

Section II – Financial Statements Findings

Finding Reference **2023-001 (Continued)**

Criteria (continued) 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.

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 (PRGERS) has not provided the audited financial and technical information necessary for the implementation of GASB Statement No.73 and GASB Statement No. 75 for the municipalities as of June 30, 2023.

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, 2023. Also, the required supplementary information has been omitted.

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

Questioned Costs None

Views of Responsible Officials and Planned Corrective Action 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 these standards.

Section III – Major Federal Award Program Findings and Questioned Costs

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to federal awards that are required to be reported in accordance with *OMB Uniform Guidance*.



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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Carlos A. López Rivera, Mayor

Contact Person: Mr. Luis Sierra Salgado – Finance Director

Phone: (787) 796-1230

Original Finding Number	Statement of Concurrence or Nonconcurrence	Corrective Action Plan
2023-001	We concur with the finding.	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 these standards. Implementation Date: March 31, 2025 Responsible Person: Mr. Luis Sierra Salgado - Finance Department Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Hon. Carlos A. López Rivera, Mayor

Date

March 7, 2024

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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Hon. Carlos A. López Rivera, Mayor

Contact Person: Mr. Luis Sierra Salgado – Finance Director

Phone: (787) 796-1230

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2022-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75	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.	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 these standards.	None	Not resolved yet. See current year finding 2023-001 .

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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Hon. Carlos A. López Rivera, Mayor

Contact Person: Mr. Luis Sierra Salgado – Finance Director

Phone: (787) 796-1230

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2022-001 (continued)		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. 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.			
2021-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75	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	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 these standards.	None	Not resolved yet. See current year finding 2023-001 .

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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Hon. Carlos A. López Rivera, Mayor

Contact Person: Mr. Luis Sierra Salgado – Finance Director

Phone: (787) 796-1230

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2021-001 (continued)		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, 2020, 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.			

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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Hon. Carlos A. López Rivera, Mayor

Contact Person: Mr. Luis Sierra Salgado – Finance Director

Phone: (787) 796-1230

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-001	Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75	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.	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 these standards.	None	Pending of final action of the Municipality Management.

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

Audit Period: July 1, 2022 – June 30, 2023

Fiscal Year: 2022-2023

Principal Executive: Hon. Hon. Carlos A. López Rivera, Mayor

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Phone: (787) 796-1230

Original Finding Number	Finding	Condition	Corrective Actions for finding not corrected or partially corrected	Questioned Cost	Status
2020-001 (continued)		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. 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.			