

**MUNICIPAL FINANCE CORPORATION
(A Component Unit of the
Commonwealth of Puerto Rico)**

**BASIC FINANCIAL STATEMENTS
YEARS ENDED
JUNE 30, 2023 AND 2022**

**MUNICIPAL FINANCE CORPORATION
(A Component Unit of the
Commonwealth of Puerto Rico)
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YEARS ENDED JUNE 30, 2023 AND 2022**

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Municipal Finance Corporation
San Juan, Puerto Rico

Opinions

We have audited the accompanying statements of net position of the Municipal Finance Corporation (the "Corporation") as of June 30, 2023 and 2022, and the statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinions

We conducted our audits in accordance with accounting principles generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation 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 audits opinions.

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 Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Corporation's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 7 be presented to supplement the basic financial statements. Such information although is not a part of the basic financial statements. 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 audits were conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Corporation's basic financial statements. The accompanying Schedules of Close Year Liquidation, on pages 18 through 23, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

San Juan, Puerto Rico
October 30, 2023

Ortiz, Rivera, Rivera & Co., LLC

The stamp E539776 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF AND FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

This section represents the management's discussion and analysis of the Municipal Finance Corporation (the "Corporation") financial performance for the fiscal years ended June 30, 2023 and 2022 and is presented as a narrative overview and analysis in conjunction with the basic financial statements. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

The Corporation was created for purposes of collecting and distributing the one percent (1%) of the municipal sales and use tax, and to issue bonds and use other financing mechanisms to pay or refinance debt of municipalities that is secured by the municipal sales and use tax.

1. Financial Highlights

- As of June 30, 2023, the Corporation's total assets increased by approximately \$22 million or 38% when compared to prior year, resulting from an increase in cash of approximately \$24.4 million and a decrease in due from municipalities of approximately \$2.8 million.
- As of June 30, 2023, the Corporation's total liabilities increased by approximately \$18.6 million or 82% when compared to prior year, resulting from an increase in accounts payable of approximately \$20.1 million and a decrease in due to municipalities of approximately \$1.5 million.
- As of June 30, 2023, the Corporation's change in net position increased by approximately \$3 million or 539% when compared to prior year.
- On March 30, 2023, the Board of Directors of the Corporation adopted Resolution 2023-02, which authorized the distribution of funds deposited in the concentration bank account to the participating and nonparticipating municipalities of the Corporation. This distribution corresponded to unidentified location municipal sales and use tax collections deposited by the Treasury Department to the Corporation, for fiscal year 2022 amounting to \$18.5 million, (the "Distribution").
- Certain reclassifications were made to prior year basic financial statements in order to conform to the current year presentation. These reclassifications had no effect on the previously reported net position or change in net position of the Corporation.

2. Financial Statements Overview

Management discussion and analysis is required supplementary information to the basic financial statements of the Corporation. The basic financial statements comprise three components: (1) the independent auditors' report, (2) the management's discussion and analysis section, and (3) the basic financial statements of the Corporation. The notes to the basic financial statements explain in more detail some of the information in the financial statements.

3. Required Financial Statements

The financial statements of the Corporation report information using accounting methods similar to those used by private-sector entities. The statement of net position includes all the Corporation's assets and liabilities providing information about the nature and amount of investment in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Corporation and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and change in net position. This statement measures the results of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered its costs from the revenues it generates.

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
AS OF AND FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net change in cash resulting from operating, investing, and capital and noncapital financial activities, and provides answers to such questions as where cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The statements are followed by the supplementary information that contains the Schedules of Close Year Liquidation.

4. Financial Analysis

The following is an analysis of the financial position and changes in financial position of the Corporation for fiscal years 2023 and 2022.

Net Position

Condensed financial information from the statements of net position as of June 30, 2023, 2022, and 2021, is as follows (in thousands):

	2023	2022	Change		2021	Change	
			Amount	%		Amount	%
Current Assets	\$ 69,470	\$ 44,843	\$ 24,627	55%	\$ 39,712	\$ 5,131	13%
Non-current assets	10,504	13,049	(2,545)	-20%	15,460	(2,411)	-16%
Total Assets	79,974	57,892	22,082	38%	55,172	2,720	5%
Current liabilities	41,271	22,698	18,573	82%	20,527	2,171	11%
Total Liabilities	41,271	22,698	18,573	82%	20,527	2,171	11%
Net Position	\$ 38,703	\$ 35,194	\$ 3,509	10%	\$ 34,645	\$ 549	2%

As of June 30, 2023, the Corporation's total assets increased by \$22.1 million, explained as follows: Cash increased from approximately \$41.4 million to \$65.8 million as a result of cash received from municipal sales and used taxes of \$200.1 million, less cash paid to municipalities of \$178.8 million, less cash paid to suppliers of \$840 thousand, plus \$3.9 million from interest received. The Due from Municipalities account decreased from approximately \$16.5 million to \$13.7 million, as a result of regular payments and prepayments received amounting to approximately \$2.8 million from municipalities related to collections agreements. The interest receivable increased by \$482 thousand from \$8 thousand to \$500 thousand due to the increase during the year of bank interest rate.

Total liabilities increased by \$18.5 million from approximately \$22.7 million to \$41.3 million. This is due to an increase in accounts payable of approximately \$20.1 million related to distribution to the municipalities of the last month of fiscal year 2023 of approximately \$18.1 million paid during fiscal year 2024 and the net effect of collection of unidentified municipal sales and used tax for fiscal year 2023 of approximately \$2 million. The due to municipalities account decreased by \$1.5 million from \$4.1 to \$2.6 as a result of the fiscal year end conciliation settlement.

As of June 30, 2022, total assets increased by \$2.7 million when compare to fiscal year 2021, explain as follows: Cash increased by \$4.5 million from approximately \$36.9 million to \$41.4 million as a result, among others, due to the net effect of funds deposited in the Corporation's concentration bank account that corresponds to unidentified location municipal sales and use tax collections for fiscal year 2022 amounting to approximately \$18.5 million less distribution of funds for the same

MUNICIPAL FINANCE CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
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concept of prior year amounting to approximately \$16.1 million which result in a net increase amounting to \$2.4 million, and increase in collection of funds received amounting to approximately \$2.1 million from municipalities related to collection agreements. The Due from Municipalities account decreased by \$1.8 million from approximately \$18.3 million to \$16.5 million, as a result of regular payments and prepayments received amounting to approximately \$2.3 million from municipalities related to collections agreements less increase in due from municipalities-current year liquidation of approximately \$500 thousand.

Total liabilities increased by \$2.1 million from approximately \$20.5 million to \$22.7 million. This is due to an increase in accounts payable of approximately \$2.4 million related to the expansion of the tax base from internet sales and a decrease in due to municipalities amounting to \$300 thousand, as a result of the fiscal year end conciliation settlement.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed financial information of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2023, 2022, and 2021, is as follows (in thousands):

	2023	2022	Change		2021	Change	
			Amount	%		Amount	%
Operating revenues	\$ 197,292	\$ 193,058	\$ 4,234	2%	\$ 159,725	\$ 33,333	21%
Expenses and non-operating revenues:							
Operating expenses	(198,195)	(193,916)	(4,279)	2%	(160,571)	(33,345)	21%
Non-operating revenues	4,412	1,407	3,005	214%	1,397	10	1%
Total expenses and non-operating revenues	(193,783)	(192,509)	(1,274)	1%	(159,174)	(33,335)	21%
Change in net position	3,509	549	2,960	539%	551	(2)	0%
Net position, beginning	35,194	34,645	549	2%	34,094	551	2%
Net position, ending	\$ 38,703	\$ 35,194	\$ 3,509	10%	\$ 34,645	\$ 549	2%

As of June 30, 2023, the Corporation's change in net position increased by approximately \$3 million which represents an increase of approximately \$3 million due to an increase in interest income when compared with prior year.

As of June 30, 2022, the Corporation's change in net position decreased by approximately \$2 thousand represents a reduction of approximately \$2 thousand when compared with prior year.

5. Currently known Facts

On October 4, 2023, the Board of Directors of the Corporation adopted Resolution 2023-17, which authorized the distribution of funds deposited in the concentration bank account to the participating and nonparticipating municipalities of the Corporation. This distribution corresponded to unidentified location municipal sales and use tax collections deposited by the Treasury Department to the Corporation, for fiscal year 2023 amounting to approximately \$20.5 million, (the "Distribution").

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
AS OF AND FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

6. Contacting the Corporation's Financial Management

This financial report is designed to provide all interested parties with a general overview of the Corporation's finances and to facilitate the Corporation's accountability for the resources it manages. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Municipal Finance Corporation, PO Box 42001, San Juan, Puerto Rico 00940-2001.

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
Current assets:		
Cash (Note 3)	\$ 65,801,946	\$ 41,401,650
Accounts receivable (Notes 2 and 4)	5,162	14,936
Interest receivable	485,860	8,264
Due from municipalities:		
Current year liquidation (Note 5)	1,602,945	1,576,032
Collections agreements (Note 6)	1,573,509	1,842,145
Total current assets	69,469,422	44,843,027
Noncurrent assets:		
Due from municipalities:		
Collections agreements (Note 6)	10,504,060	13,049,871
Total noncurrent assets	10,504,060	13,049,871
Total assets	79,973,482	57,892,898
LIABILITIES		
Current liabilities:		
Accounts payable (Note 7)	38,679,781	18,602,224
Due to municipalities (Note 8)	2,591,525	4,096,469
Total current and total liabilities	41,271,306	22,698,693
NET POSITION		
Unrestricted	38,702,176	35,194,205
Total net position	\$ 38,702,176	\$ 35,194,205

The accompanying notes are an integral part of these basic financial statements.

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Municipal sales and use tax	\$ 197,292,179	\$ 193,058,355
OPERATING EXPENSES		
Distribution of municipal sales and use tax to municipalities	197,292,179	193,058,355
General and administrative	903,710	857,651
Total operating expenses	198,195,889	193,916,006
OPERATING LOSS	(903,710)	(857,651)
NON-OPERATING REVENUES		
Other income	35,050	24,544
Interest income	4,376,631	1,381,808
Total non-operating revenues	4,411,681	1,406,352
CHANGE IN NET POSITION	3,507,971	548,701
NET POSITION AT BEGINNING OF THE YEAR	35,194,205	34,645,504
NET POSITION AT THE END OF THE YEAR	\$ 38,702,176	\$ 35,194,205

The accompanying notes are an integral part of these basic financial statements.

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES		
Cash received from municipal sales and use taxes	\$ 200,089,487	\$ 194,891,331
Cash paid to municipalities	(178,776,288)	(190,887,747)
Cash paid to suppliers	(846,988)	(864,873)
Net cash provided by operating activities	20,466,211	3,138,711
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net other collections	35,050	24,544
Net cash provided by noncapital financing activities	35,050	24,544
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,899,035	1,381,808
Net cash provided by investing activities	3,899,035	1,381,808
NET INCREASE IN CASH	24,400,296	4,545,063
CASH AT BEGINNING OF YEAR	41,401,650	36,856,587
CASH AT END OF YEAR	\$ 65,801,946	\$ 41,401,650
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (903,710)	\$ (857,651)
Adjustment to reconcile operating loss to net cash provided by/ (used in) operating activities		
Changes in assets and liabilities:		
Decrease/(increase):		
Accounts receivable	9,774	(9,268)
Due from municipalities	2,787,534	1,842,244
Increase/(decrease):		
Account payable	20,077,557	2,383,869
Due to municipalities	(1,504,944)	(220,483)
Net cash provided by operating activities	\$ 20,466,211	\$ 3,138,711

The accompanying notes are an integral part of these basic financial statements.

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022

1. REPORTING ENTITY

The Municipal Finance Corporation (the “Corporation”) is a public corporation and an independent instrumentality of the Commonwealth of Puerto Rico (the “Commonwealth”). The Corporation was originally created by Act No. 19 of January 24, 2014, as amended (“Act No.19-2014”) known as the “Municipal Financing Corporation Law”, which was superseded by Act No. 107-2020, as amended, establishing the Municipal Code of Puerto Rico (the “Code”). The Code stipulates the norms, rules and laws related to income and financing for the operation of municipalities as well as describes the operation and new responsibilities of the Corporation in its articles 7.302 (21 L.P.R.A. § 8284) to 7.306 (21 L.P.R.A. § 8295).

As a result of the approval of the Code, the Corporation is attached to the Puerto Rico Fiscal Agency and Financial Advisory Authority (the “FAFAA”). The Code established that the FAFAA shall cover the operating expenses of the Corporation; provided, however, that if the FAFAA cannot cover such expenses, they shall be paid from the funds deposited in the Corporation’s accounts, which is derived from the municipal sales and use tax collections.

The Corporation was created for purposes of collecting and distributing the one percent (1%) of the municipal sales and use tax and to issue bonds or use other financing mechanisms to pay or refinance municipal debt secured by the municipal sales and use tax.

The Corporation’s final settlement of the 1% municipal transfer is presented as supplementary information on the Schedule of Close Year Liquidation. The Schedule of Close Year Liquidation has been prepared on the cash basis of accounting. Sales and use tax revenues are recorded when collected and deducted when distributed to the municipalities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”), as applicable to governmental entities, as prescribed by the Governmental Accounting Standards Board (“GASB”).

The preparation of basic financial statements in conformity with U. S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net position, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Following is a description of the Corporation’s most significant accounting policies:

Measurement Focus and Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Corporation recognizes revenues when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating revenues consist primarily of the collection of the 1% municipal sales and use tax. Operating expenses consist primarily of the distribution of the municipal sales and use tax.

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

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Net investment in capital assets - consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding debt balances that is attributable to the acquisition, construction, or improvement of those assets.

Restricted component - consists of restricted assets reduced by liabilities related to those assets. Restrictions are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted component - consists of net amount of the assets and liabilities that do not meet the definition of the preceding category. An unrestricted component of net position is often designated, to indicate that management does not consider them to be available for general operations. Unrestricted component of net position often has constraints on use that are imposed by management, but such constraints may be removed or modified.

As of June 30, 2023 and 2022, the Corporation's net position was presented as unrestricted component.

The statement of revenues, expenses, and change in net position demonstrates the degree to which the operating expenses are offset by operating revenues.

The statement of cash flows reports cash receipts, cash payments, and net change in cash resulting from operating, investing, and capital and noncapital financial activities, and provides answers to such questions as where cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Accounts Receivable - Accounts receivable is stated net of estimated allowance for uncollectible accounts. The allowance is based on management's evaluation of the risk characteristics of the receivable, including such factors as past collection experience, sources of repayment, adverse situation that may affect the customer's ability to repay, and general economic conditions. Charge-offs are recorded against the allowance when management believes that the collectability is unlikely. Recoveries of amounts previously charged off are credited to the allowance. Because of uncertainties inherent in the estimation process, management's estimate may change in the future. Management estimates that the accounts receivable is collectible, therefore, did not establish a provision for uncollectible accounts.

Recently Issued Accounting Pronouncements - The GASB has issued the following accounting pronouncements that are effective for periods subsequent to June 30, 2023.

- **GASB Statement No. 99, Omnibus 2022.** The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.
- **GASB Statement No. 100, Accounting Changes and Error Corrections-** an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial

MUNICIPAL FINANCE CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

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 requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 101, *Compensated Absences*.** The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these Statements may have on the Corporation's basic financial statements upon adoption.

Reclassifications- Certain reclassifications were made to prior year basic financial statements in order to conform to the current year presentation. These reclassifications had no effect on the previously reported net position or change in net position of the Corporation.

3. CASH

The Corporation is authorized to deposit only in bank institutions approved by the Department of Treasury of the Commonwealth. Such deposits should be kept in separate accounts in the name of the Corporation. It is the Corporation's policy to have all bank account openings approved by the Board of Directors.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a financial institution's failure, the Corporation's deposits may not be returned to it. The Corporation maintains cash deposits in one commercial bank located in Puerto Rico. Under the Commonwealth's statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the Corporation are held by the Puerto Rico Secretary of Treasury but in the Corporation's name. The total deposits in commercial banks amounted to \$65,801,946 and \$41,401,650 as of June 30, 2023 and 2022, respectively.

MUNICIPAL FINANCE CORPORATION
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

Deposits in Commercial Banks

The Corporation has the following depository accounts in a commercial bank:

Depository Account	June 30, 2023		June 30, 2022	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Deposits insured by the FDIC	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Deposits subject to the collateral requirements	65,551,946	65,551,946	41,151,650	41,151,650
Total deposits	<u>\$ 65,801,946</u>	<u>\$ 65,801,946</u>	<u>\$ 41,401,650</u>	<u>\$ 41,401,650</u>

As of June 30, 2023 bank accounts accrued \$487 thousand in interest receivable which were collected during the month of July.

4. ACCOUNTS RECEIVABLE

The accounts receivable for fiscal years ended June 30, 2023, and 2022, respectively, are as follows:

Municipality of	2023	2022
Aguada	\$ -	\$ 76
Aguadilla	1,002	-
Barceloneta	-	3,265
Camuy	65	-
Caguas	-	167
Cataño	-	21
Comerio	-	95
Dorado	197	-
Fajardo	607	-
Guánica	1	-
Humacao	-	6,009
Isabela	37	-
Juana Díaz	1,698	985
Lajas	-	61
Loíza	-	95
Manatí	-	15
Moca	589	-
Naranjito	-	45
Orocovis	360	-
Peñuelas	-	147
Sabana Grande	-	282
Salinas	84	-
San Juan	-	45
San Sebastián	28	-
Toa Alta	-	2,236
Toa Baja	494	-
Utuaado	-	1,392
	<u>\$ 5,162</u>	<u>\$ 14,936</u>

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

5. DUE FROM MUNICIPALITIES

The amount due from Municipalities consists of advances made in excess of the collected funds.

The Corporation is required by law to prepare a settlement statement on a fiscal year basis, whereby a reconciliation between the amounts advanced to the municipalities and amounts collected from taxpayers is made. The Corporation prepares a settlement not later than October 31, after the end of the fiscal year (see supplementary information). The amount due from Municipalities is recorded and amortized through a pro rata deduction from the next fiscal year collections.

The balance of due from municipalities amounts to \$1,602,945 and \$1,576,032 on June 30, 2023 and 2022, respectively.

6. DUE FROM MUNICIPALITIES ON COLLECTIONS AGREEMENTS

Annually, the Corporation reconciles the total cash remitted to the municipalities with the net cash collections received through all collection's channels, including the Web Portal of the Corporation or by direct deposit to the individual accounts of the Corporation on behalf of the Municipalities. Through this reconciliation, the Corporation determines if there were advances to the Municipalities in excess of the collections made, resulting in an accounts receivable to the Corporation, or if advances were less than collections, resulting in a debt of the Corporation to the Municipalities.

Therefore, the Corporation identifies that several Municipalities maintain accounts receivable related from previous fiscal years, for which formal collection agreements were established.

In November 2018, the Corporation and certain Municipalities entered in several Collection Agreements for the repayment of prior year unpaid advances. The Collection Agreements applicable interest rate depends on the maturity option selected by each Municipality. The first due date of the payment plans was October 2019, with a fixed and discounted interest rate that fluctuates between 4% and 8%, and an amortization period from 5 to 15 years.

Due from Municipalities as of June 30, 2023 and 2022, respectively, consist of the following:

<u>Municipality of</u>	<u>2023</u>	<u>2022</u>
Bayamón	\$ 4,813,910	\$ 6,010,469
Mayagüez	3,484,425	3,952,956
Carolina	3,034,871	3,218,055
Guaynabo	-	929,049
Canóvanas	744,363	781,487
Total	<u>\$ 12,077,569</u>	<u>\$ 14,892,016</u>
Less: Current portion	1,573,509	1,842,145
Long-term portion	<u>\$ 10,504,060</u>	<u>\$ 13,049,871</u>

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2023 AND 2022

7. ACCOUNTS PAYABLE

As of June 30, 2023 and 2022, the amount of accounts payable include: (1) funds deposited in the Corporation's concentration bank account that corresponds to unidentified location municipal sales and use tax collections of \$20,488,993 and \$18,511,069, respectively, (2) municipal sales and use taxes receives during the last month of the fiscal year ended June 30, 2023 amounted to \$18,042,911 paid to the Municipalities after fiscal year ended, and (3) certain other administrative expenses amounting to approximately \$147,877 and \$91,155 for fiscal year 2023 and 2022, respectively.

The balance of accounts payable as of June 30, 2023 and 2022, respectively, consist of the following:

	2023	2022
Municipal sales and use taxes	\$ 38,531,904	\$ 18,511,069
Bank charges	127,877	62,891
Audit fees	20,000	20,000
Total	\$ 38,679,781	\$ 18,593,960

8. DUE TO MUNICIPALITIES

The amount due to Municipalities represents the funds collected in excess to the advances of money made to the municipalities during the fiscal year.

The amount due to Municipalities is paid at settlement. The Corporation prepares a settlement not later than October 31, after the fiscal year ended (see supplementary information). The amount due to Municipalities is recorded and paid through the next fiscal year.

The balance of due to municipalities amounts to \$2,591,525 and \$4,096,469 as of June 30, 2023 and 2022, respectively.

9. SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through October 30, 2023 and determined that there have been no events that have occurred that would require adjustments to our disclosures in the June 30, 2023 and 2022 basic financial statements , except for the following:

On October 4, 2023, the Board of Directors of the Corporation adopted Resolution 2023-17, which authorized the distribution of funds deposited in the concentration bank account to the participating and nonparticipating municipalities of the Corporation. This distribution corresponded to unidentified location municipal sales and use tax collections deposited by the Treasury Department to the Corporation, for fiscal year 2023 amounting to approximately \$20.5 million, (the "Distribution").

SUPPLEMENTARY INFORMATION

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED)
JUNE 30, 2023

Municipality of	Collections	Prior Year Collections	Total Collections	Advances to Municipality	Due from Municipality	Due to Municipality
Adjuntas	\$ 457,745	\$ 79,741	\$ 537,486	\$ 553,168	\$ 15,682	\$ -
Aguada	1,749,612	161,733	1,911,345	1,930,181	18,836	
Aguadilla	5,275,061	262,034	5,537,095	5,569,769	32,674	
Aguas Buenas	559,039	107,161	666,200	666,779	579	
Aibonito	1,357,553	83,211	1,440,764	1,446,095	5,331	
Añasco	1,128,623	101,669	1,230,292	1,259,856	29,564	
Arecibo	4,131,036	224,658	4,355,694	4,374,007	18,313	
Arroyo	506,240	97,283	603,523	603,683	160	
Barceloneta	4,417,074	216,533	4,633,607	4,695,591	61,984	
Barranquitas	996,098	79,458	1,075,556	1,080,591	5,035	
Bayamón	278,866	1,428,371	1,707,237	1,428,371		278,866
Cabo Rojo	2,305,900	145,711	2,451,611	2,548,114	96,503	
Caguas	22,469,670	1,010,503	23,480,173	23,510,078	29,905	
Camuy	1,218,699	94,250	1,312,949	1,383,200	70,251	
Canóvanas	3,703,889	182,658	3,886,547	3,792,579		93,968
Carolina	368,765	937,393	1,306,158	937,393		368,765
Cataño	5,502,333	283,109	5,785,442	5,723,888		61,554
Cayey	5,919,828	296,030	6,215,858	6,296,238	80,380	
Ceiba	274,693	66,691	341,384	347,084	5,700	
Ciales	431,014	82,729	513,743	511,885		1,858
Cidra	1,860,716	169,949	2,030,665	2,056,156	25,491	
Coamo	1,097,943	120,832	1,218,775	1,219,836	1,061	
Comerio	385,158	90,223	475,381	486,398	11,017	
Corozal	1,041,801	80,676	1,122,477	1,123,087	610	
Culebra	206,773	101,148	307,921	318,090	10,169	
Dorado	4,710,616	234,780	4,945,396	4,925,864		19,532
Fajardo	4,746,076	240,276	4,986,352	5,050,335	63,983	
Florida	187,834	93,606	281,440	281,440		
Guánica	396,010	80,783	476,793	481,581	4,788	
Guayama	3,253,073	228,747	3,481,820	3,504,180	22,360	
Guayanilla	468,291	77,449	545,740	549,618	3,878	
Guaynabo	12,330	656,481	668,811	656,481		12,330
Gurabo	2,164,589	177,146	2,341,735	2,327,516		14,219

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED) (CONTINUED)
JUNE 30, 2023

Municipality of	Collections	Prior Year Collections	Total Collections	Advances to Municipality	Due from Municipality	Due to Municipality
Hatillo	\$ 8,055,087	\$ 392,671	\$ 8,447,758	\$ 8,479,574	\$ 31,816	\$ -
Hormigueros	1,394,207	145,684	1,539,891	1,538,278	-	1,613
Humacao	7,002,272	333,760	7,336,032	7,380,486	44,454	-
Isabela	3,293,069	193,631	3,486,700	3,509,103	22,403	-
Jayuya	479,739	109,228	588,967	603,252	14,285	-
Juana Díaz	2,160,041	175,815	2,335,856	2,349,881	14,025	-
Juncos	1,448,677	130,911	1,579,588	1,589,138	9,550	-
Lajas	746,769	93,109	839,878	846,710	6,832	-
Lares	840,699	85,828	926,527	939,098	12,571	-
Las Marías	89,360	93,884	183,244	184,397	1,153	-
Las Piedras	1,499,714	90,688	1,590,402	1,593,884	3,482	-
Loíza	501,831	78,614	580,445	586,234	5,789	-
Luquillo	1,004,385	128,329	1,132,714	1,147,318	14,604	-
Manatí	4,986,829	310,611	5,297,440	5,310,815	13,375	-
Maricao	23,166	95,449	118,615	118,615	-	-
Maunabo	120,422	68,143	188,565	190,621	2,056	-
Mayagüez	64,460	523,099	587,559	523,099	-	64,460
Moca	1,117,119	132,385	1,249,504	1,258,394	8,890	-
Morovis	829,395	101,297	930,692	929,404	-	1,288
Naguabo	631,641	104,878	736,519	742,274	5,755	-
Naranjito	1,215,739	128,983	1,344,722	1,344,274	-	448
Orocovis	613,047	85,965	699,012	701,332	2,320	-
Patillas	455,116	100,596	555,712	564,488	8,776	-
Peñuelas	584,716	91,472	676,188	718,773	42,585	-
Ponce	19,307,337	720,721	20,028,058	20,022,569	-	5,489
Quebradillas	883,945	120,879	1,004,824	1,009,137	4,313	-
Rincón	983,530	115,123	1,098,653	1,106,967	8,314	-
Río Grande	2,997,426	169,539	3,166,965	3,215,984	49,019	-
Sabana Grande	688,608	111,693	800,301	808,015	7,714	-
Salinas	1,158,826	131,318	1,290,144	1,309,003	18,859	-
San Germán	1,727,725	149,268	1,876,993	1,877,764	771	-
San Juan	1,176,659	2,703,814	3,880,473	2,703,814	-	1,176,659
San Lorenzo	1,439,522	151,419	1,590,941	1,607,819	16,878	-
San Sebastián	2,066,262	187,240	2,253,502	2,270,430	16,928	-

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED) (CONTINUED)
JUNE 30, 2023

<u>Municipality of</u>	<u>Collections</u>	<u>Prior Year Collections</u>	<u>Total Collections</u>	<u>Advances to Municipality</u>	<u>Due from Municipality</u>	<u>Due to Municipality</u>
Santa Isabel	\$ 2,336,904	\$ 146,993	\$ 2,483,897	\$ 2,502,493	\$ 18,596	\$ -
Toa Alta	1,662,557	170,796	1,833,353	1,850,679	17,326	-
Toa Baja	7,199,193	377,540	7,576,733	7,869,517	292,784	-
Trujillo Alto	3,182,085	233,452	3,415,537	2,925,061	-	490,476
Utuado	817,549	123,036	940,585	974,064	33,479	-
Vega Alta	1,743,495	163,191	1,906,686	1,926,790	20,104	-
Vega Baja	2,712,353	200,826	2,913,179	2,930,744	17,565	-
Vieques	567,255	84,856	652,111	658,406	6,295	-
Villalba	413,702	72,759	486,461	492,745	6,284	-
Yabucoa	830,569	110,192	940,761	952,972	12,211	-
Yauco	2,145,161	178,361	2,323,522	2,327,491	3,969	-
Sub-total	178,781,111	18,511,068	197,292,179	196,131,038	1,430,384	2,591,525
2021 Liquidation					172,561	
Total	<u>\$ 178,781,111</u>	<u>\$ 18,511,068</u>	<u>\$ 197,292,179</u>	<u>\$ 196,131,038</u>	<u>\$ 1,602,945</u>	<u>\$ 2,591,525</u>

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED)
JUNE 30, 2022

Municipality of	Collections	Prior Year Collections	Total Collections	Advances to Municipality	Due from Municipality	Due to Municipality
Adjuntas	\$ 433,806	\$ 43,393	\$ 477,199	\$ 462,570	\$ -	\$ 14,629
Aguada	1,699,632	181,721	1,881,353	1,888,094	6,741	-
Aguadilla	4,878,094	390,476	5,268,570	5,319,626	51,056	-
Aguas Buenas	522,673	83,713	606,386	624,759	18,373	-
Aibonito	1,255,491	158,805	1,414,296	1,409,463	-	4,833
Añasco	1,042,585	124,248	1,166,833	1,182,721	15,888	-
Arecibo	3,974,087	340,460	4,314,547	4,357,672	43,125	-
Arroyo	458,347	74,821	533,168	538,727	5,559	-
Barceloneta	4,368,681	386,678	4,755,359	4,748,724	-	6,635
Barranquitas	916,091	119,697	1,035,788	1,042,164	6,376	-
Bayamón	1,151,574	-	1,151,574	709,877	-	441,697
Cabo Rojo	2,178,390	228,052	2,406,442	2,417,031	10,589	-
Caguas	21,858,653	1,768,828	23,627,481	23,946,182	318,701	-
Camuy	1,142,453	134,649	1,277,102	1,298,189	21,087	-
Canóvanas	3,517,175	274,478	3,791,653	3,767,959	-	23,694
Carolina	465,389	-	465,389	51,571	-	413,818
Cataño	5,213,949	498,400	5,712,349	5,737,445	25,096	-
Cayey	5,580,345	478,779	6,059,124	6,060,851	1,727	-
Ceiba	289,100	54,782	343,882	342,422	-	1,460
Ciales	422,483	69,311	491,794	490,358	-	1,436
Cidra	1,821,441	206,030	2,027,471	2,031,927	4,456	-
Coamo	977,591	123,957	1,101,548	1,099,257	-	2,291
Comerio	357,859	66,485	424,344	424,629	285	-
Corozal	980,867	118,275	1,099,142	1,101,979	2,837	-
Culebra	178,065	48,977	227,042	226,850	-	192
Dorado	4,528,423	368,494	4,896,917	4,848,172	-	48,745
Fajardo	4,538,242	387,697	4,925,939	4,921,847	-	4,092
Florida	156,762	47,971	204,733	204,299	-	434
Guánica	330,575	61,419	391,994	399,894	7,900	-
Guayama	3,189,259	280,776	3,470,035	3,487,866	17,831	-
Guayanilla	438,095	63,294	501,389	506,531	5,142	-
Guaynabo	1,699,775	-	1,699,775	-	-	1,699,775
Gurabo	2,068,996	210,741	2,279,737	2,294,772	15,035	-

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED) (CONTINUED)
JUNE 30, 2022

Municipality of	Collections	Prior Year Collections	Total Collections	Advances to Municipality	Due from Municipality	Due to Municipality
Hatillo	\$ 7,953,989	\$ 606,373	\$ 8,560,362	\$ 8,587,220	\$ 26,858	\$ -
Hormigueros	1,325,633	159,856	1,485,489	1,497,729	12,240	-
Humacao	6,674,846	482,819	7,157,665	7,190,851	33,186	-
Isabela	3,145,095	263,742	3,408,837	3,414,831	5,994	-
Jayuya	461,376	74,056	535,432	580,226	44,794	-
Juana Díaz	2,070,619	225,706	2,296,325	2,295,031	-	1,294
Juncos	1,421,838	172,949	1,594,787	1,600,921	6,134	-
Lajas	735,434	99,585	835,019	848,451	13,432	-
Lares	787,407	109,627	897,034	892,173	-	4,861
Las Marías	84,602	36,870	121,472	124,123	2,651	-
Las Piedras	1,312,779	160,091	1,472,870	1,486,796	13,926	-
Loíza	481,789	65,688	547,477	546,181	-	1,296
Luquillo	1,039,664	107,865	1,147,529	1,160,360	12,831	-
Manatí	4,851,769	394,531	5,246,300	5,265,090	18,790	-
Maricao	24,379	31,263	55,642	56,445	803	-
Maunabo	115,574	38,969	154,543	157,112	2,569	-
Mayagüez	696,406	-	696,406	640,777	-	55,629
Moca	1,063,136	127,095	1,190,231	1,201,707	11,476	-
Morovis	772,641	107,510	880,151	879,680	-	471
Naguabo	594,910	83,884	678,794	693,460	14,666	-
Naranjito	1,137,069	137,414	1,274,483	1,287,047	12,564	-
Orocovis	613,699	91,730	705,429	716,660	11,231	-
Patillas	416,834	66,292	483,126	493,387	10,261	-
Peñuelas	554,817	87,795	642,612	659,193	16,581	-
Ponce	18,485,407	1,426,665	19,912,072	20,060,427	148,355	-
Quebradillas	835,364	99,556	934,920	942,831	7,911	-
Rincón	937,020	106,729	1,043,749	1,058,918	15,169	-
Río Grande	2,804,711	221,245	3,025,956	3,023,870	-	2,086
Sabana Grande	653,385	100,450	753,835	758,851	5,016	-
Salinas	1,129,192	136,755	1,265,947	1,274,410	8,463	-
San Germán	1,585,205	172,843	1,758,048	1,764,662	6,614	-
San Juan	1,341,314	-	1,341,314	-	-	1,341,314
San Lorenzo	1,512,388	176,984	1,689,372	1,699,294	9,922	-
San Sebastián	2,013,051	211,189	2,224,240	2,231,316	7,076	-

MUNICIPAL FINANCE CORPORATION
(A Component Unit of the Commonwealth of Puerto Rico)
SCHEDULE OF CLOSE YEAR LIQUIDATION (UNAUDITED) (CONTINUED)
JUNE 30, 2022

Municipality of	Collections	Prior Year Collections	Total Collections	Advances to Municipality	Due from Municipality	Due to Municipality
Santa Isabel	\$ 2,321,530	\$ 203,211	\$ 2,524,741	\$ 2,524,174	\$ -	\$ 567
Toa Alta	1,678,345	201,970	1,880,315	1,903,305	22,990	-
Toa Baja	7,817,436	621,215	8,438,651	8,463,349	24,698	-
Trujillo Alto	3,365,240	301,544	3,666,784	3,877,770	210,986	-
Utuado	803,670	118,350	922,020	913,707	-	8,313
Vega Alta	1,676,344	199,403	1,875,747	1,901,167	25,420	-
Vega Baja	3,241,885	221,081	3,462,966	3,482,987	20,021	-
Vieques	549,857	77,670	627,527	610,620	-	16,907
Villalba	385,901	66,560	452,461	454,645	2,184	-
Yabucoa	767,271	124,996	892,267	899,291	7,024	-
Yauco	2,062,608	204,445	2,267,053	2,278,258	11,205	-
Sub-total	<u>176,938,377</u>	<u>16,119,978</u>	<u>193,058,355</u>	<u>190,343,731</u>	<u>1,381,845</u>	<u>4,096,469</u>
2021 Liquidation					194,187	
Total	<u>\$ 176,938,377</u>	<u>\$ 16,119,978</u>	<u>\$ 193,058,355</u>	<u>\$ 190,343,731</u>	<u>\$ 1,576,032</u>	<u>\$ 4,096,469</u>