COMMONWEALTH OF PUERTO RICO
MUNICIPAL REVENUE COLLECTION CENTER

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

For the Fiscal Year Ended June 30, 2022

Invierte en ti

CRIM

CENTRO DE RECAUDACIÓN DE INGRESOS MUNICIPALES

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- American Institute of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

To the Governing Board
Municipal Revenue Collection Center
San Juan, Puerto Rico

Report on the Audit of the Basic Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the **Municipal Revenue Collection Center (the Center)** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the **Center's** basic financial statements as listed in the table of contents.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Unmodified
Tax Amnesty Fund	Unmodified
Special Revenue Fund	Unmodified
Custodial Fund	Unmodified

Qualified Opinion on the Governmental Activities

In our opinion, except for the effects of the matters described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities of the **Center**, as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Tax Amnesty Fund, the Special Revenue Fund, and the Custodial Fund of the **Center**, as of June 30, 2022, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **Center** 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 audit opinions.

Matter Giving Rise to the Qualified Opinion on the Governmental Activities

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

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

Emphasis-of-Matter

As discussed in **Note 18**, the 2021 basic financial statements' Net Position have been restated to reflect the adjustments related to the balances of total pension liability, total postemployment benefits liability, deferred outflows of resources and deferred inflows of resources.

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 **Center'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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **Center's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Center'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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **5** through **16**, the budgetary comparison information on pages **85** and **86,** the schedule of proportionate share of collective total pension liability and the schedule of proportionate share of OPEB liability on pages **87** through **89** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to Management's Discussion and Analysis and budgetary comparison information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the method of preparing 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 on 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Required Supplementary Information (continued)

We were unable to apply certain limited procedures to the employees, retirement systems information and employees' other postemployment benefits information applicable to the **Center**, in accordance with auditing standards generally accepted in the United States of America due to the limited and unaudited nature of the information provided by ERS. We do not express an opinion or provide any assurance on the information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Center's** basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2023 on our consideration of the **Center'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 **Center'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 **Center's** internal control over financial reporting and compliance.

López-Vega CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
April 28, 2023

Stamp No. E487009 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the **Municipal Revenue Collection Center** (**the Center**) provides an overview of the **Center's** operational as well as financial activities for the fiscal year ended June 30, 2022. The intent of this discussion and analysis is to look at the **Center's** performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding.

The MD&A is an element of the reporting model adapted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

ORGANIZATION STRUCTURE

The **Center** is a municipal entity with legal personality, separate and independent from the Commonwealth of Puerto Rico, created in 1991 as part of the Municipal Reform. The **Center** is led by an Executive Director, who is appointed by the Governing Board. The Executive Director of the **Center** exercises the functions and powers provided by law, as well as those delegated to it by the Governing Board.

The Governing Board is comprised of eleven (11) members, from which nine (9) are mayors, the Commissioner of Municipal Affairs, and the President of the Government Development Bank for Puerto Rico ("GDB").

Act No. 109-2017, known as Law for the Restructuring of the Debt of the Government Development Bank for Puerto Rico, amended Act No. 80-1991 for define that GDB will act as a designated trustee until Fiscal Agency and Financial Advisory Authority (FAFAA) assume these functions or appoint a financial institution to assume these functions, which must occur on or before the closing date (as such term is defined in the Act). Effective on August 2017 the Executive Director of FAFAA assumed representation on CRIM's Governing Board.

At the end of fiscal year 2017-2018, the Office of the Commissioner of Municipal Affairs culminates as an entity, transferring the main functions to the Office of Management and Budget. Effective as of July 1, 2018, the Governor of Puerto Rico delegates to Municipal Affairs Advisor as the representative on the CRIM Governing Board.

CENTER'S SERVICES

The **Center** has one (1) Central Office and nine (9) Regional Offices located throughout the Island. The offices are located in Aguada, Arecibo, Bayamón, Caguas, Carolina, Humacao, Mayagüez, Ponce and San Juan. These offices serve taxpayers, in addition to carrying out technical functions, such as real estate appraisals, machinery and property valuation, among others.

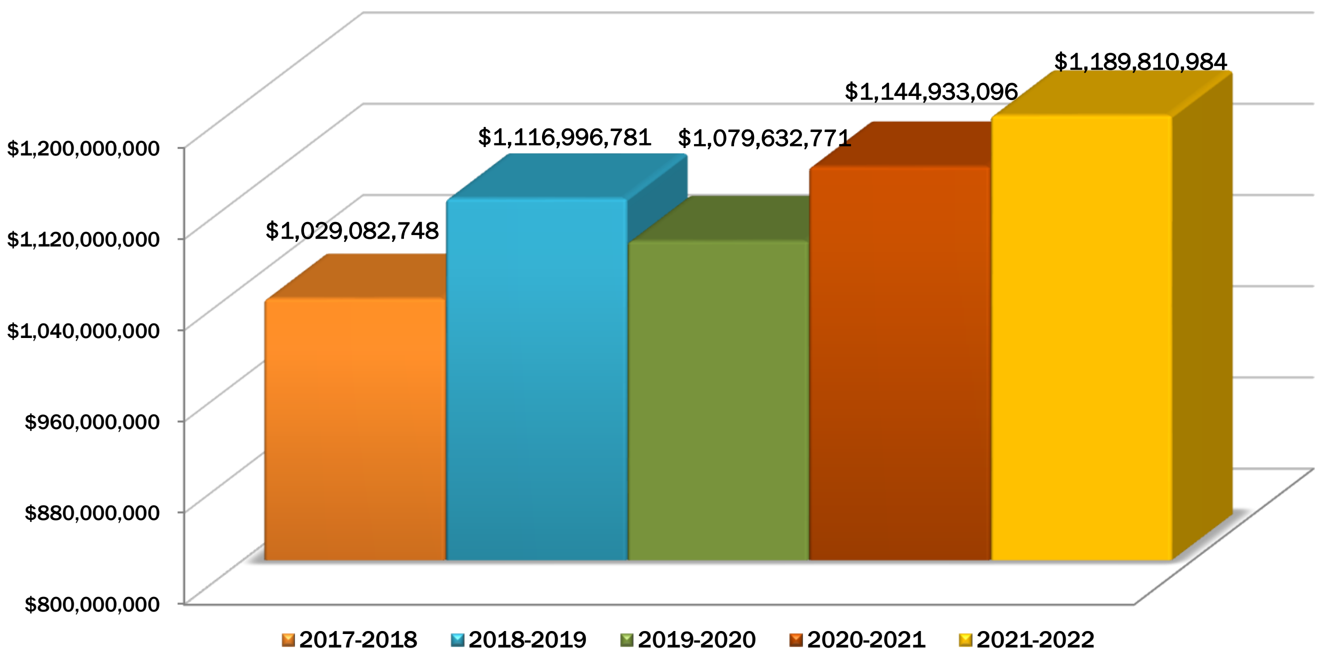
The **Center** provides fiscal services to all the municipalities including but not limited to notification, assessment, and collection of both personal and real property taxes. To offer the service it renders, its principal source of revenue is derived from up to five percent (5%) of the municipal property tax collections.

OPERATIONAL HIGHLIGHTS

The Center experienced an increase on its tax collections from $1,144.9 million in fiscal year 2020-2021 to $1,189.8 million in the current fiscal year, representing an increase of $44.9 million. This increase in collections was the effect of the implementation of various project, discussed below, that increase the taxpayer database.

The amounts do not include assignments from the Commonwealth of Puerto Rico and revenues awarded from the Puerto Rico Additional Lottery System.

The following chart show how the Center has increased revenue collections during the last five (5) years:



On June 30, 2016, President Barack Obama signed the Puerto Rico Oversight, Management and Economic Stability Act, known as PROMESA for its acronym, into law (as codified under 48 U.S.C. §§ 2101-2241). In general terms, PROMESA seeks to provide the Commonwealth and its instrumentalities with fiscal and economic discipline through, among other things, the establishment of the Oversight Board, whose responsibilities include the certification of fiscal plans and budgets for the Commonwealth and its instrumentalities.

OPERATIONAL HIGHLIGHTS (CONTINUED)

On April 6, 2016, Governor Alejandro J. Garcia Padilla signed into law Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (as amended, "Act 21"). Act 21, among other things, created the Puerto Rico Fiscal Agency and Financial Advisory Authority (the "FAFAA"), as an independent public corporation to assume the extinguished Government Development Bank for Puerto Rico's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities (Act 2-2017 subsequently repealed and replaced the provisions of Act 21 regarding FAFAA). FAFAA has also been assigned with the task of ensuring compliance with fiscal plans and budgets approved by the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") pursuant to PROMESA's Title III.

In its First Public Meeting held on September 30, 2016, the Oversight Board designated CRIM as on the initial covered entities subject to oversight under PROMESA. Subsequently, on its May 9, 2019 Presentation to CRIM and Municipalities, the Oversight Board stated for the first time that it will require CRIM to submit a fiscal plan and budget. On June 14, 2019, CRIM submitted its initial fiscal plan and after addressing certain points of non-compliance identified by the Oversight Board, proceeded to submit its revised fiscal plan on July 16, 2019.

On June 4, 2020, nearly a year after CRIM's revised fiscal plan submission, the Oversight Board issued a Notice of Violation of the submitted Fiscal Plan and established that CRIM had to submit another revised fiscal plan by June 24, 2020. On June 25, 2020, CRIM submitted its revised fiscal plan and after indicating that such fiscal plan was non-compliant with the parameters established by the Oversight Board, proceeded to certify their own fiscal plan on June 26, 2020 (the "2020 Certified Fiscal Plan").

The driving factor guiding the 2020 Certified Fiscal Plan is to have CRIM become a more efficient entity in the collection of municipal revenues in an effort to partially offset the gradual reductions in transfers from the Central Government, as established in the 2020 Commonwealth Fiscal Plan, as well as assist municipalities overcome the financial difficulties that lie ahead. Understanding that CRIM plays an essential role in supporting the 78 municipalities, they established measures focused in two main areas: (i) operational efficiencies and (ii) tax revenues collection enhancements. In summary, by enhancing CRIM's technological capabilities, it will be able to capture unrealized tax revenues and better monitor ongoing efforts.

Specifically, the 2020 Certified Fiscal Plan established 10 areas of focus which would result in short-term and medium-term increases in tax revenue collections and savings for CRIM:

1) Appraisal of non-appraisal properties
2) Swimming pool new in tax roll
3) Correction of mailing address
4) Identification and appraisals of new properties
5) Improvements of real property tax collections rates
6) Home improvements new to tax roll
7) Sale of Accounts Receivables
8) FY2019 A/R – Collect in FY2020 and FY2021
9) Improve Personal property self-reporting compliance
10) Operational Improvements: a new Tax System

OPERATIONAL HIGHLIGHTS (CONTINUED)

The subsequent FY2021 Certified Fiscal serves as a continuation of the FY2020 Certified Fiscal Plan and updated the existing implementation processes being undertaken by CRIM. In addition, the FY2021 Certified Fiscal Plan requires CRIM to research and submit reports with recommendations regarding the implementation of a property tax regime with taxable values based on current market values vs. the existing replacement cost approach.

CRIM has been in the process of implementing the measures established in the 2020 and 2021 Certified Fiscal Plans and continually discussing with the Oversight Board any hurdles that CRIM faces during the process. Major technological areas that CRIM has been undertaking, even before it was required in the 2020 Certified Fiscal Plan, was the improvement of the Digital Cadastre, the Virtual Appraisals project, and the implementation of an enhanced ERP System called CRIM 360. With the implementation of these projects being completed in the upcoming FY2022, CRIM will have complied with the vast majority of the areas of focus established in the 2020 Certified Fiscal Plan and updated in subsequent Fiscal Plans, including the identification of properties which are not included in its tax roll and the reappraisal of all the properties throughout the 78 municipalities. We are certain that the completion of these measures will result in increased tax revenue collections and precise reporting for more efficient decision-making processes, all for the benefit of Puerto Rico's 78 municipalities and its constituents.

The following table shows a summary of transactions and the amount collected:

COLLECTIONS	TRANSACTIONS	AMOUNT
Website	344,886	$279,994,730
Personal Tax Estimated Payments	55,868	193,015,494
Regional Offices	799,849	400,869,648
IVR	223,524	147,419,517
Mortgage Banks	438,269	133,443,255
Phone Line	56,424	31,676,238
Wire Transfer	5,439	3,392,238
TOTAL	**1,924,259**	**$1,189,811,120**

During the fiscal year 2020-2021, the **Center** updated electronic filing program of the Personal Property Tax Return, requiring all taxpayer filled Tax Return through Personal Property Portal. In this fiscal year there were approximately eighty-five thousand six hundred and forty-two (85,642) returns electronically filed and the related collections amounted to $438.2 million.

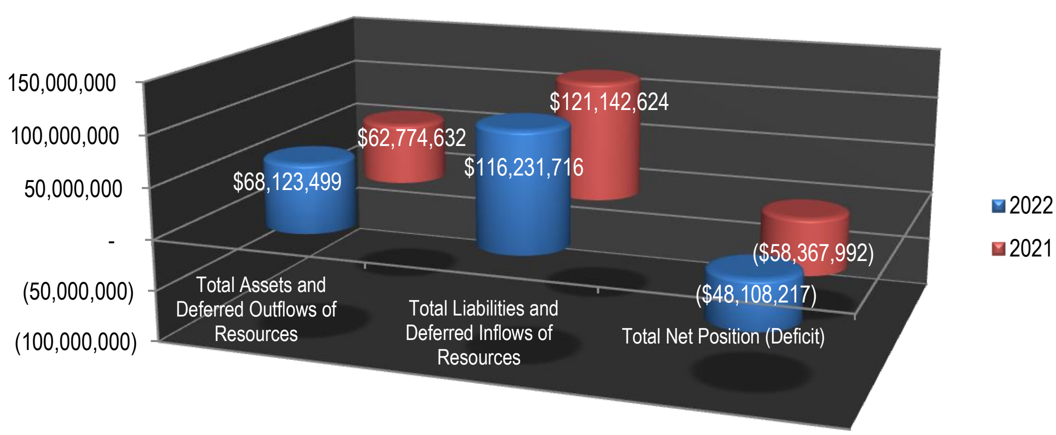
FINANCIAL HIGHLIGHTS

Government-wide highlights

Net Position – Total liabilities and deferred inflow of resources of the **Center** exceeded its total assets and deferred outflow of resources for fiscal year ended June 30, 2022 by $48,108,217 as presented in total net position (deficit), as restated. Of this amount, the unrestricted portion amounted to $(66,368,568) and $18,260,351 is related to the net investment in capital assets. Also, the **Center's** total net deficit decreased by $10,259,775 in comparison with the prior fiscal year balance, as restated.

Condensed Statements of Net Position	2022	2021, as restated	Change	%
Current assets	$ 29,321,466	$ 22,643,771	$ 6,677,695	29.49%
Capital assets, net	18,260,351	18,209,470	50,881	0.28%
Deferred outflows of resources	20,541,682	21,921,391	(1,379,709)	(6.29)%
Total assets and deferred outflows of resources	68,123,499	62,774,632	5,348,867	8.52%
Current liabilities	24,141,909	27,220,407	(3,078,498)	(11.31)%
Long-term liabilities	87,305,522	89,498,275	(2,192,753)	(2.45)%
Deferred inflows of resources	4,784,285	4,423,942	360,343	8.15%
Total liabilities and deferred inflows of resources	116,231,716	121,142,624	(4,910,908)	(4.05)%
Total net position (deficit), as restated	$ (48,108,217)	$ (58,367,992)	$ 10,259,775	(17.58)%

The following chart presents a comparison of total assets, total liabilities and total net position (deficit) of the **Center** for the fiscal years ended June 30, 2022 and 2021:



FINANCIAL HIGHLIGHTS (CONTINUED)

Governmental Fund highlights

Government Funds – Fund Balances - As of June 30, 2022, the **Center's** Governmental Funds reported a combined ending fund balance of $25,928,393, representing an increase of $8,368,266 in comparison with the prior year balance. Of this total amounts, $11,436,499 represents unassigned fund balance; $7,981,726 are committed to specific purposes as established by the Governing Board, such as the improvement of the **Center's** electric generation system, maintenance of the digital cadastre and implementation of an improved collection and liens unit and $6,510,168 are assigned for the payment of contracts and others obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the **Center's** basic financial statements, which include three components: (1) government–wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Basic Financial Statements

The basic financial statements include two (2) kinds of financial statements that present different views of the **Center**: the government-wide financial statements and the fund financial statements. These financial statements also include the notes to the basic financial statements which provide more details about the information reported in the statements.

Government – Wide Financial Statements

The Government-Wide Financial Statements provide a broad view of the **Center's** operations in a manner similar to a private sector business. The statements provide both short and long-term information about the **Center's** financial position, which assists the **Center's** in assessing the **Center's** economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenue and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-Wide Financial Statements include two (2) statements:

- **Statement of Net Position –** presents all the **Center's** assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in the **Center's** net position may serve as a useful indicator of whether the financial position of the **Center** is improving or deteriorating.

- **Statement of Activities –** presents information showing how the **Center's** net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave).

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The **Center**, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. The Fund Financial Statements focus on individual parts of the **Center's** governmental funds, reporting the **Center's** operations in more detail than the Government–Wide Statements. All of the funds of the **Center** can be divided into two (2) categories. It is important to note that these fund categories use different accounting approaches and will be interpreted differently. The two (2) categories of funds are the following:

- **Governmental Funds Financial Statements -** Governmental Funds are used to account for essentially the same activities reported in the Government-Wide Financial Statements. However, unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements focus on near-term inflows and outflows of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified-accrual basis of accounting.

  These statements provide a detailed short-term view of the **Center's** finances that assists in determining whether there will be adequate resources available to meet the current needs of the **Center**. Because the focus of the Governmental Funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for Governmental Activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

  Both, the Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities. These reconciliations are presented on the page immediately following each Governmental Fund Financial Statement.

  The **Center** has three (3) Governmental Funds: 1) the General Fund, 2) the Tax Amnesty Fund and 3) the Special Revenue Fund. The Basic Governmental Funds Financial Statements can be found immediately following the Government-Wide Financial Statements.

- **Custodial Fiduciary Funds -** These funds are used to account for resources held for the benefit of the Municipalities. Agency Funds are not reflected in the Government-Wide Financial Statements because the resources of these funds are not available to support the **Center's** own activities. The accounting used for Agency Funds is much like that used for Proprietary Funds. They use the accrual basis of accounting. The **Center's** Agency Funds record the assets held for distribution by the **Center** as an agent for the Municipalities. The Statement of Fiduciary Net Position-Custodial Fund can be found immediately following the Governmental Funds Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The notes to the financial statements can be found immediately following funds financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS–VARIANCES

The following summarizes the main variances in the Government-Wide Financial Statements totals:

Statement of Net Position (Deficit)

Total assets and deferred outflows of resources increased by $5,348,867 (8.52%) in comparison with the prior fiscal year, as restated. This result was caused mainly by an increase of current assets amounting to $6,677,695 and a decrease in deferred outflows of resources of $1,379,709.

Total liabilities and deferred inflows of resources decreased by $4,910,908 (4.05%) in comparison with the prior fiscal year, as restated. This is the net effect of: (a) a decrease in current liabilities of $3,078,498, (b) a decrease in long-term debt by $2,192,753 and (c) an increase in deferred inflows of resources by $360,343 during the year ended June 30, 2022.

Total net deficit decreased by $10,259,775 (17.58%) (from $58,367,992 in 2021, as restated, to $48,108,217 in 2022), mainly as a result of the change in net position in the Statement of Activities. Below, we summarize the main reasons for such decrease.

Statement of Activities

Total revenues increased by $9,194,209 (27.36%) in comparison with prior fiscal year. This effect was caused by the increase in revenues related to property tax administrative fees amounting to $7,382,057 and a net increase in other revenues of $1,812,152.

Total expenses increased by $376,573 (1.17%) in comparison with the prior fiscal year. The main reason for the increase in expenses was the net effect of a decrease in salaries and fringe benefits of $1,904,781, the increase in repairs and maintenance by $1,033,435, an increase in interests by $1,335,345 and the net decrease in other expenses of $87,426.

As a result of the variances discussed above, the total change in net deficit decreased by $10,259,775 (from a deficiency of $58,367,992 in 2021, as restated, to a deficiency of $48,108,217 in 2022).

GOVERNMENT-WIDE FINANCIAL ANALYSIS–VARIANCES (CONTINUED)

Statement of Activities (Continued)

The following table shows the condensed statements of activities of the **Center** for the fiscal years ended June 30, 2022 and 2021, as restated.

Condensed Statements of Activities	2022	2021, as restated	Change	%
General revenues:				
Property tax administrative fees	$ 37,654,574	$ 30,272,517	$ 7,382,057	24.39%
Sales of certifications and maps	911,592	996,044	(84,452)	(8.48)%
Interest income	109,346	5,323	104,023	1,954.22%
Service charges to banks	2,107,041	1,122,242	984,799	87.75%
Other income	1,139,862	1,209,094	(69,232)	(5.73)%
Federal grant	877,014	-	877,014	100.00%
Total revenues	42,799,429	33,605,220	9,194,209	27.36%
Expenses:				
Taxpayers' and technical services	14,822,092	15,691,308	(869,216)	(5.54)%
Administration	17,717,562	16,471,773	1,245,789	7.56%
Total expenses	32,539,654	32,163,081	376,573	1.17%
Change in net position	10,259,775	1,442,139	8,817,636	611.43%
Net position at beginning of year, as restated	(58,367,992)	(59,810,131)	1,442,139	(2.41)%
Net position at end of year	$ (48,108,217)	$ (58,367,992)	$ 10,259,775	(17.58)%

The following table shows the **Center's** expenses by type for the years ended June 30, 2022 and 2021.

Expenses by type	2022	2021	Change	%
Salaries and fringe benefits	$ 20,118,773	$ 22,023,554	$ (1,904,781)	(8.65)%
Professional and consulting services	2,649,651	2,977,329	(327,678)	(11.01)%
Travel and representation	235,341	279,947	(44,606)	(15.93)%
Depreciation	1,206,082	1,043,130	162,952	15.62%
Supplies	117,149	234,420	(117,271)	(50.03)%
Rent	1,399,597	1,560,951	(161,354)	(10.34)%
Repairs and maintenance	2,629,337	1,595,902	1,033,435	64.76%
Utilities	1,263,385	1,189,445	73,940	6.22%
Printed forms	609,164	254,490	354,674	139.37%
Postage	569,566	577,558	(7,992)	(1.38)%
Insurance	210,932	202,440	8,492	4.19%
Trainings	9,535	5,333	4,202	78,79%
Interest	1,483,630	148,285	1,335,345	900.53%
Other	37,512	70,297	(32,785)	(46.64)%
Total expenses	$ 32,539,654	$ 32,163,081	$ 376,573	1.17%

FINANCIAL ANALYSIS OF THE CENTER'S GOVERNMENTAL FUND

The focus of the **Center's** Governmental Funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the **Center's** financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. There is an amount of $7,981,726 of fund balance committed to indicate that it is not available for new spending because it has already been committed to cover special projects according to the resolutions of the Governing Board, and there are $6,510,168 assigned to liquidate contracts and purchase orders.

The General Fund is the operating fund of the **Center.** At the end of the current fiscal year, unassigned fund balance was $11,309,485 while the total fund balance reached $21,494,749. The **Center's** General Fund balance increased by $3,934,622 million during the fiscal year ended June 30, 2022.

GENERAL FUND BUDGETARY HIGHLIGHTS

The **Center's** General Fund final budget amounted to $32,044,564, an increase of $1,373,616 when compared with the original budget. For the fiscal year 2022, the general fund actual expenditures amounted to $29,490,560, which represents $2,554,004 less than the final budget. Also, the general fund actual revenues amounted to $34,564,958, which represents $2,520,394 more than the final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The **Center's** capital assets for its governmental activities as of June 30, 2022 amounted to $40,724,593 with an accumulated depreciation of $22,464,242, resulting in a book value of $18,260,351. This investment in capital assets includes land, building, building improvements, leasehold improvements, office equipment, computer hardware and software and vehicles.

Debt administration

The **Center's** long-term debt obligations consist of accrued compensated absences, capital lease, pension liability and OPEB liability. Information of these debts can be found in **Note 8** to the Basic Financial Statements.

ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75

During the fiscal year the **Center** adopted the provisions 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"*, requires that governmental employers whose employees are provided with defined benefit pensions recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions administered through a trust that do not meet the requirements of GASB Statement No. 73. The **Center's** pension plan is administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS has provided to the **Center** the financial and technical information necessary for the proper recognition and reporting of its total pension liability, deferred inflows of resources and deferred outflows of resources. Accordingly, the **Center** complies with the accounting and financial reporting requirements set forth in GASB Statement No. 73. Consequently, the **Center's** financial statements report and disclose the required information for its pension plan. As of June 30, 2022, total pension liability amounted to $99,451,859. However, this information was not subject to audit.

ADOPTION OF GASB STATEMENTS NO. 73 AND NO. 75 (CONTINUED)

In addition, the **Center's** pension plan administrator provided the **Center** with the unaudited schedules of employment allocations an OPEB amounts by employer as of June 30, 2021 (**Center's** measurement date), necessary to comply with the requirements of GASB No. 75 *"Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions"*, as of June 30, 2022. As a result, amounts to be reported as deferred outflows/inflows of resources related to OPEB, the total OPEB liability, applicable disclosures and required supplementary information have been presented in the accompanying financial statements. As of June 30, 2022, total other postemployment benefit (OPEB) liability amounted to $2,835,447. However, this information was not subject to audit.

ECONOMIC FACTORS

- ***CRIM Certified Fiscal Plans***

  On June 26, 2020, the Board certified a fiscal plan for the **Center** for fiscal years 2021 to 2025 (the Fiscal Plan). In accordance with "PROMESA", this Fiscal Plan projects a baseline forecast of the **Center's** sources and uses of funds for the next five fiscal years based on historical trends and discussions with the **Center's** management. In order to provide a greater revenue base for Municipalities and ensure greater fairness in property tax collections, certain measures have been developed to improve operations and increase tax collections at the **Center**. These measures are incremental to the baseline projections and must be adopted and successfully implemented to achieve the targets of the Fiscal Plan.

  On April 23, 2021, the Board certified a fiscal plan for the **Center** for fiscal years 2022-2026, as an update and continuation of the requirements set forth in the FY2021 Certified Fiscal Plan approved on June 26, 2020. The new plan is highlighting what was accomplished during the fiscal year and mapping what lies ahead. As described above, the **Center** is maintaining the measures set forth in the FY2021 Certified Fiscal Plan, as much work still needs to be completed to improve operations, provide a greater revenue base for municipalities, and ensure greater fairness in property tax collections, all of which will result in increased tax collections for the municipalities. The measures outlined in the new Fiscal Plan center around improving the competitiveness of Puerto Rico's property tax regime and the enhancement of collections to reduce reliance on Central Government transfers and less optimal taxes, such as the inventory tax charged to businesses.

- ***Impact of COVID-19 Pandemic***

  As a result of the COVID-19, the Commonwealth of Puerto Rico, the municipal government and the people of Puerto Rico were granted with financial assistance in order to alleviate the economic impact of the virus. As described in **Note 15**, the **Center** was awarded with the following financial support during fiscal year 2020-2021:

  - Puerto Rico COVID-19 Pandemic (DR-4493-PR) for the amount of $127,014.
  - Premium Pay Program funds from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) established by the American Rescue Plan Act of 2021. The amount received amounted to $750,000.

CONTACTING CRIM FINANCIAL MANAGEMENT

The **Center's** financial statements are designed to present users with a general overview of its finances. Questions concerning any of the information provided in this report or requests or additional information should be addressed to the **Municipal Revenue Collection Center** at PO Box 195387, San Juan, PR 00919-5387.

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	$ 17,251,338
Accounts receivable	705,540
Due from other funds	11,364,588
Total current assets	29,321,466
Noncurrent assets:	
Nondepreciable assets	6,715,000
Depreciable assets	11,545,351
Capital assets, net of accumulated depreciation	18,260,351
Total assets	47,581,817
Deferred outflows of resources	
Pension related	20,290,582
Other postemployment benefits	251,100
Total deferred outflows of resources	20,541,682
Total assets and deferred outflows of resources	68,123,499
Liabilities	
Current portion of:	
Capital lease obligations	98,891
Accrued compensated absences	108,263
Pension liability	20,290,582
Other postemployment benefits liability	251,100
Accounts payable and accrued expenses	3,393,073
Total current liabilities	24,141,909
Noncurrent liabilities:	
Capital lease obligations, net of current portion	71,532
Accrued compensated absences, net of current portion	5,400,866
Pension liability, net of current portion	79,161,277
Other postemployment benefits liability, net of current portion	2,584,347
Claims and judgments	87,500
Total noncurrent liabilities	87,305,522
Total liabilities	111,447,431
Deferred inflows of resources	
Pension related	4,784,285
Total liabilities and deferred inflows of resources	116,231,716
Net position:	
Net investment in capital assets	18,260,351
Unrestricted (deficit)	(66,368,568)
Total net position (deficit)	$ (48,108,217)

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

	Governmental Activities
Expenses:	
Taxpayers' and technical services	$ 14,822,092
Administration	17,717,562
Total expenses	32,539,654
General revenues:	
Property taxes administrative fees	37,654,574
Sales of certifications and maps	911,592
Service charges to banks	2,107,041
Interest income	109,346
Other income	1,139,862
Federal grant	877,014
Total general revenues	42,799,429
Change in net position	10,259,775
Net position (deficit), beginning of fiscal year, as restated	(58,367,992)
Net position (deficit), ending of fiscal year	$ (48,108,217)

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

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 14,620,544	$ 2,402,400	$ 228,394	$ 17,251,338
Accounts receivable	687,875	-	17,665	705,540
Due from other funds	9,630,109	4,157,457	-	13,787,566
Total assets	24,938,528	6,559,857	246,059	31,744,444
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued liabilities	3,386,104	6,969	-	3,393,073
Due to other funds	57,675	2,246,258	119,045	2,422,978
Total liabilities	3,443,779	2,253,227	119,045	5,816,051
Fund balances:				
Committed	3,727,527	4,254,199	-	7,981,726
Assigned	6,457,737	52,431	-	6,510,168
Unassigned	11,309,485	-	127,014	11,436,499
Total fund balances	21,494,749	4,306,630	127,014	25,928,393
Total liabilities and fund balances	$ 24,938,528	$ 6,559,857	$ 246,059	$ 31,744,444

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

Total Fund Balance-Governmental Funds		$ 25,928,393
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 assets	$ 6,715,000	
Depreciable capital assets	34,009,593	
Accumulated depreciation	(22,464,242)	
Total capital assets		18,260,351
Deferred outflows of resources – pension related		20,290,582
Deferred outflows of resources – OPEB related		251,100
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:		
Capital leases	(170,423)	
Reserve for claims and judgments	(87,500)	
Accrued compensated absences	(5,509,129)	
Pension liability	(99,451,859)	
Other postemployment benefits liability	(2,835,447)	
Total long-term liabilities		(108,054,358)
Deferred inflows of resources-pension related		(4,784,285)
Total Net Position (Deficit) of Governmental Activities		$(48,108,217)

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

	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
Revenues				
Property taxes administrative fees	$ 31,398,303	$ 6,256,271	$ -	$ 37,654,574
Sales of certifications and maps	911,592	-	-	911,592
Service charges to banks	2,107,041	-	-	2,107,041
Interest income	8,160	101,186	-	109,346
Other income	1,139,862	-	877,014	2,016,876
Total revenues	35,564,958	6,357,457	877,014	42,799,429
Expenditures				
Taxpayers' and technical services	14,850,201	-	-	14,850,201
Administration	16,780,135	2,050,827	750,000	19,580,962
Total expenditures	31,630,336	2,050,827	750,000	34,431,163
Net change in fund balances	3,934,622	4,306,630	127,014	8,368,266
Fund balances, beginning	17,560,127	-	-	17,560,127
Fund balances, ending	$ 21,494,749	$ 4,306,630	$ 127,014	$ 25,928,393

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

Net Change in Fund Balances – Total Governmental Funds	$ 8,368,266
Amounts reported for governmental activities in the Statement 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 a depreciation expense. This is the amount of capital assets additions recorded in the current period.	1,256,963
Depreciation expense on capital assets is reported in the government-wide Statement of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in the governmental funds.	(1,206,082)
Long-term accrued compensated absences are reported in the government-wide Statement of Activities, but they do not require the use of current financial resources. Therefore, long-term accrued compensated absences were amounts not reported as expenditures in the governmental funds. The following amount represents the net change in the long-term accrued compensated absences from prior year.	646,917
Repayment of the principal balance of the obligation under capital lease in recorded as expenditure in the governmental funds, but reduces long term-debt balance of the obligation under capital lease in the government-wide Statement of Net Position.	94,770
Pension and OPEB benefit is reported in the government-wide Statement of Activities, but it does not require the use of current financial resources. Therefore, pension and OPEB benefits is not reported as an expenditure in the governmental funds	1,098,941
Change in Net Position of Governmental Activities	$10,259,775

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

	Citizen's Participation	Property Taxes	Municipal Redemption
Assets			
Cash and cash equivalents	$ -	$ 264,157,688	$ 563,257,082
Due from:			
Taxpayers-real property, net of allowance for uncollectable of $3,498,362,058	-	808,172,640	-
Taxpayers-personal property, net of allowance for uncollectable of $382,543,200	-	158,935,087	-
Municipalities, net of allowance for uncollectable of $41,088,095	-	86,013,609	-
Commonwealth, net of allowance for uncollectable of $8,313,077	-	27,934,608	-
Others	4,000	-	-
Total assets	4,000	1,345,213,632	563,257,082
Liabilities			
Due to:			
Commonwealth Government	$ -	$ 209,336,035	$ -
Municipalities-real property	-	808,172,640	-
Municipalities-personal property	-	158,935,087	-
Municipalities-restricted for debt service	-	-	563,257,082
Municipalities-other	4,000	133,216,172	-
Other funds	-	11,368,582	-
Other	-	24,185,116	-
Total liabilities	4,000	1,345,213,632	563,257,082
Total net position	$ -	$ -	$ -

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

	Citizen's Participation	Property Taxes	Municipal Redemption
Additions:			
Property tax collections for municipalities	$ -	$ 931,976,433	$ 479,352,946
Legislative appropriations	-	138,435,301	-
Interest income	-	139,265	358,561
Total additions	-	1,070,550,999	479,711,507
Deductions:			
Payments of property tax to municipalities	-	768,972,140	256,744,024
Payments of property tax to other governments	-	155,134,784	-
Transfers of funds to municipalities	-	138,435,301	-
Interests and bank charges	-	5,242,496	222,967,483
Others	-	2,766,278	-
Total deductions	-	1,070,550,999	479,711,507
Net increase in fiduciary net position	-	-	-
Net position-beginning	-	-	-
Net position-ending	$ -	$ -	$ -

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

1-ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Organization

The **Municipal Revenue Collection Center** (the **Center**) was created by Act No. 80 of August 30, 1991, as amended, as part of the Municipal Reform Legislation. The **Center** was created for the purpose of establishing a separate and independent municipal entity from the Commonwealth of Puerto Rico (the Commonwealth), to collect, receive and distribute the property tax revenues of the Municipalities. Prior to the enactment of this Act, the Commonwealth, through the Department of Treasury, accounted for these revenues. The **Center** is exempt from the payment of taxes on its revenues and properties.

On August 14, 2020, the Commonwealth of Puerto Rico enacted to law the Act No. 107, to create the Municipal Code of Puerto Rico in order to integrate, organize and update the laws related to the organization, administration and operation of Municipalities. This Act adds new procedural models for greater autonomy for the Municipalities and repeals the following laws:

- Law No. 81-1991, as amended, known as the "Law on Autonomous Municipalities of Puerto Rico";
- Law No. 83-1991, as amended, known as the "Municipal Property Contribution Act 1991";
- Law No. 80-1991, as amended, known as the "Municipal Revenue Collection Center (CRIM) Act";
- Law No. 113 of July 10, 1974, as amended, better known as the "Municipal Patents Act";
- Law No. 19-2014, as amended, known as "Law of the Municipal Finance Corporation";
- Law No. 19 of May 12, 1977, as amended, known as the "Municipal Police Act";
- Law No. 31–2012, known as "Law to Make the Restoration of the Communities of Puerto Rico feasible";
- Law No. 120-2001, as amended, known as "Law on municipalization of recreational and community sports facilities";
- Law No. 21 of May 20, 1987, as amended, known as the "Access Control Act 1987";
- Law No. 21-1997, as amended, known as the "Contributing Debt Sales Act";
- Law No. 137-2014, as amended, known as "Law for the Distribution of Federal Funds of the *“Community Development Block Grant Program"*(CDBG) among the Municipalities of Puerto Rico";
- Law No. 222 of May 15, 1938, as amended, known as "Law to Authorize Municipalities to Adopt Ordinances Related to the Repair and Elimination of Inadequate Housing";
- Law No. 118-2010, as amended, known as the "Incentives For Municipal Economic and Tourism Development Act";
- Law No. 18-2014, as amended, known as the "Law of the Municipal Management Fund";
- Law No. 64-1996, as amended, known as the "Puerto Rico Municipal Financing Act of 1996";
- Law No. 29 of June 30, 1972, as amended, known as the "Law of the Municipal Financing Agency of Puerto Rico";
- Law No. 114-2009 better known as "To empower Municipal Governments to Create Day Care Centers"; and for other purposes.

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

A. Reporting Organization (Continued)

The new Municipal Code maintains the definition of "Autonomous Municipality" provided for in Law No. 81-1991, as amended. The Code is an advanced legislation, consisting of eight (8) books, which in turn are subdivided into chapters and articles. The table of contents of the Code is as follows:

- Book I - Municipal Government - Powers and Faculties of the Municipality, the Mayor and the Municipal Legislature
- Book II - Municipal Administration - Organization, Planning and Control of Available Goods and Human Resources
- Book III - Municipal Services
- Book IV - Municipal Processes and Community Management
- Book V - Economic Development
- Book VI - Planning and Territorial Planning
- Book VII - Municipal Treasury

One of the most important books for Municipalities and their Mayors is the Book VII entitled "Municipal Treasury". This book sets out the rules and laws related to income and financing necessary for the operation of Municipalities. This Book is divided into: "Municipal Tax Collection Center", "Municipal Tax Types" and "Municipal Financing". The Municipal Code of Puerto Rico established the municipal legal order for Municipalities to renew and look for real alternatives to the new fiscal challenges they face.

Also, on December 30, 2020, Act No. 170-2020 was enacted to amend and clarify several articles and provisions of Act No. 107-2020.

B. Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other 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. The criteria provided in Governmental Accounting Standards Board Codification Section 2100 has been considered and there are no agencies or entities which should be presented together with the **Center's** Financial Statements.

C. Basis of Accounting

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses and/or expenditures during the reporting period. Actual results could differ from those estimates.

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

C. Basis of Accounting (Continued)

Cash and cash equivalents

The **Center** has defined cash and cash equivalents to include cash on hand, demand, deposits, and short-term investments with original maturities of three (3) months or less from the date of acquisition.

Capital assets

Capital assets include land, building, building improvements, leasehold improvements, equipment and right-to-use leased assets, which are reported in the government-wide financial statements.

The **Center** defines capital assets as assets, which have an initial individual cost of more than $500 at date of acquisition and an estimated useful life of five (5) or more years. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded 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). Right-to-use leased assets are initially measured as the initial amount of lease liability, adjusted for lease payments made at of before the lease commencement date, plus certain indirect costs and are amortized on a straight-line basis over their useful lives.

Additions, improvements and other capital outlays that significantly extend the useful life of capital assets are capitalized. The costs of normal maintenance and repairs that do not add value to the assets or materially extend assets lives are not capitalized; instead, they are expensed as incurred.

Capital assets accounted for in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements. Also, capital assets are depreciated using the straight-line method over the assets estimated life. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization expense amounts reported in the financial statements. Land and construction in progress are non-depreciable assets. The estimated useful lives of capital assets are as follows:

Types of Capital Assets	Years
Building/Infrastructures	40
Building/Infrastructure improvements	40
Leasehold improvement	10
Office equipment	5
Computer hardware and software	5
Vehicles	5
Right-to-use leased assets	5

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

C. Basis of Accounting (Continued)

Deferred outflows/inflows of resources

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

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

In the government-wide Statement of Net Position, the **Center** 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 the **Center's** contributions and proportionate share of contributions; and e) the **Center's** contributions subsequent to the measurement date.

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

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

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

C. Basis of Accounting (Continued)

Deferred outflows/inflows of resources (Continued)

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 Fund Financial Statement (FFS).

Long-term obligations

In the Government-Wide Financial Statements, special and other long-term obligations are reported as noncurrent liabilities in the Statement of Net Position. The liabilities reported in this statement include the **Center's** long-term liabilities for the acquisition of office equipment, long-term accrued compensated absences, pension liability and the OPEB liability.

Compensated absences

Compensated absences are those absences for which employees will be paid, such as a vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the **Center** and its employees is accrued as employees earn its rights to benefits. Until February 3, 2017, employees earned their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees.

The excess was payable, if not used by the employee, by June 30 of the next fiscal year. Employees earned sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the excess is payable if not used by employee by March 31 of the next fiscal year.

On February 4, 2017, the Government enacted Law No. 8 for the Administration and Transformation of the Human Resources of the Government of Puerto Rico. This Law established and recognized that the government is a Single Employer. Under the provisions of this Law, annual vacation days were reduced from thirty (30) to fifteen (15) days. The vacation days may be accumulated to a maximum of sixty (60) days. Also, the employees hired before the effectiveness of this Law will be granted annually eighteen (18) days of sick leave. However, the employees hired after the effectiveness of this Law, will be granted annually twelve (12) days of sick leave. In both cases, the sick leave days may be accumulated to a maximum of ninety (90) days.

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

C. Basis of Accounting (Continued)

Compensated absences (Continued)

On July 10, 2018, the Law No. 125 was enacted in order to recognize the **Center** as a municipal entity. In accordance with this Law, the **Center's** employees are not subject to Law No. 8 described before. Based on the Law No. 125, the **Center** established that all employees will earn their right to annual vacation leave at the rate of thirty (30) working days per calendar year up to a maximum permissible accrual of sixty (60) working days for regular employees. The days in excess will not be paid, and will be lost if not used by the employees.

Also, employees will earn sick leave at the rate of eighteen (18) working days per calendar year. Sick leave is only payable if the regular employee resigns and has more than ten (10) years of employment, or retires. The maximum permissible accrual is ninety (90) working days for all employees and the days in excess will not be paid, and will be lost if not used by the employees.

The **Center** accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the Government-Wide and the Governmental Funds' Financial Statement presentations.

Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when the liability is incurred.

Those cases that, as a result of the settlement a property tax credit is awarded, such a credit is recorded by management as a contra-account in the property tax receivable balance.

Accounting for pension costs

The **Center's** employees are covered by the retirement plans administered by the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The Commonwealth of Puerto Rico is the sponsor of the ERS. The ERS pension plan was a multi-employer defined contribution plan up to June 30, 2017.

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

C. Basis of Accounting (Continued)

Accounting for pension costs (Continued)

Effective on July 1, 2017, the **Center** and other participants of the ERS converted to a new PayGo model. Under the PayGo funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. PayGo payments are recorded as expenditures/expenses in the financial statements. Accordingly, at that date, the **Center** shall implement the requirements set forth by GASB Statement No. 73 *"Accounting for Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB No. 68".*

Accounting for Postemployment Benefits (OPEB)

GASB Statement No. 75 *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* is effective for the **Center** starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective total 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 **Center'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.

D. Measurement Focus

The **Center's** basic financial statements include both Government-Wide (Statement of Net Position and Statement of Activities) and Governmental Funds Financial Statements (Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balances).

Government-Wide Financial Statements

The Government-Wide Financial Statements report information of all the non-fiduciary activities of the **Center**. For the most part, the effect of inter-fund activity has been removed from these Government-Wide Financial Statements.

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

D. Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and, 2) contributions that are restricted to meeting the operational or capital requirements of a specific function. Management fees and other items not properly included among program revenues are reported instead as general revenues. The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the Fiduciary Fund Financial Statement. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the **Center** considers revenue to be available if it is collected within sixty (60) days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. Separate Fund Financial Statements are provided for Governmental Funds and Fiduciary Funds, even though the later are excluded from the Government-Wide Financial Statements. Major individual government funds are reported as separate columns in the fund financial statements.

E. Basic Financial Statements Presentation

Financial reporting presentation

Financial information of the **Center** is presented in this report as follows:

1. Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the **Center's** financial activities.
2. The Government-Wide Financial Statements report information of all of the non-fiduciary activities of the **Center.** The Statement of Net Position presents the **Center's** non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

E. Basic Financial Statements Presentation (Continued)

Financial reporting presentation (Continued)

a. ***Net investment in capital assets –*** Consists of capital assets, net of accumulated depreciation and amortization, 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.

b. ***Restricted net position –*** The restricted component of net position consists of restricted assets (subject to restrictions beyond the **Center'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.

c. ***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.

   The Government-Wide Statement of Activities was prepared following the option available for single–program governments using a single column reporting expenses (by functions) first followed by revenues (by major sources). The difference between these amounts is the change in net position and followed by beginning and ending net position.

Net position flow assumption

Sometimes, the **Center** will fund outlays for a particular purpose from both restricted 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 **Center's** policy to consider restricted – net position to have been depleted before unrestricted – net position applied.

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

E. Basic Financial Statements Presentation (Continued)

Financial reporting presentation (Continued)

3. Governmental Funds Financial Statements focus on information about the **Center's** General Fund, Tax Amnesty Fund and Special Revenue Fund.

   a. ***General Fund:*** The General Fund is the operating fund of the **Center** and it is used to account for all financial resources except those required to be accounted for in another fund.

   b. ***Tax Amnesty Fund:*** As described in **Note 10**, on September 24, 2021, the **Center's** Governing Board approved the Delinquent Debt Collection Program, through regulations under Article 7.070 of Act No. 107-2020, as amended, known as the Municipal Code of Puerto Rico.

   On November 4, 2021, the regulation was approved and registered in the Department of State as Regulation No. 9323: "Special Regulation in Benefit of the Taxpayer for Payment of Debt" (hereinafter "the Regulation"). The purpose of the Regulation is to provide an opportunity to tax payers to update their records and pay debts on the delinquent real property tax, establishing a uniform procedures that has the prior consent of the **Center's** Governing Board, the Secretary of Treasury and the Mayor where the property is located, since it grant discounts to the principal amount of debts, as established in the Article 7.070 of Act No. 107-2020.

   The amounts collected for payments received as part of the Delinquent Debt Collection Program established by this Regulation will be deposited on a special account designated by the **Center**. The regulation established that five percent (5%) of the Basic Tax collected from this program, will be transferred to the **Center** for operational and management expenses. The transactions and balances of the five (5%) assigned to the **Center**, are reported in the Tax Amnesty Fund.

   c. ***Special Revenue Fund:*** This fund accounts for the proceeds of specific revenue source, such as federal and state grants, that are legally restricted to expenditures for specific purposes. This legal restriction may be imposed either by governments that provide funds, or by outside parties. This fund accounts for substantially all federal monies received by the **Center**.

4. The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund. The Schedule of the **Center's** Proportionate Share of Collective Total Pension Liability and the Schedule of **Center's** Proportionate Share of Other Postemployment Benefits Liability are also required supplementary information required by GASB.

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

E. Basic Financial Statements Presentation (Continued)

Financial reporting presentation (Continued)

5. The Statement of Fiduciary Net Position is reported using the economic measurement focus and the accrual basis of accounting, similar to the Government–Wide Financial Statements described above. The **Center** reports the following fiduciary funds:

   a. **Custodial fund:** This fund reports resources held by the reporting government in a purely custodial capacity. There are three major custodial funds reported by the **Center** as follows:

      i. **Property Tax Fund:** Pursuant to Act No. 107 of August 14, 2020, as amended, the **Center** is empowered to bill and collect property taxes in order to distribute property tax collections to the Municipalities.

      ii. **Municipal Redemption Fund:** This fund is used to service the debt of the Municipalities.

      iii. **Citizens' Participation Fund:** The **Center** is responsible for receiving and distributing funds assigned by the Commonwealth for citizens' participation in the municipality development program, (the Program). The Program was established by Act No. 2 of July 9, 1973, as amended, and is funded through legislative appropriations. The funds of the Program are distributed to the Municipalities based on some specific criteria established by the Act.

6. Notes to the financial statements

The emphasis in the fund financial statements is on major funds. The model defined in GASB No. 34 establishes criteria for determination of a major fund. In summary, the **Center** reports as major funds, the General Fund, the Tax Amnesty Fund and the Special Revenue Fund.

F. Fund Balances –Governmental Funds

The Governmental Funds Financial Statements present fund balances classifications that comprise a hierarchy that is based primarily on the extent to which the **Center** is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the Governmental Fund Financial Statements are as follows:

- **Non-spendable:** This classification includes amounts that cannot be spent because they are either: a) not in spendable form or b) are legally or contractually required to be maintained intact. The **Center** has currently no funds under this classification as there are no items that are not expected to be converted to cash within the next year.

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either: (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

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

F. Fund Balances –Governmental Funds (Continued)

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the **Center's** Governing Board (the Board). These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- **Assigned:** This classification includes amounts that are constrained by the **Center's** intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the **Center's** Executive Director through the budgetary process.

- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

Fund balance flow assumptions

The **Center** would typically use restricted balance first, followed by committed resources, and the assigned resources, as appropriate opportunities arose, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

G. Financial Risk

The **Center** carries commercial insurance to cover casualty, theft, claims and other losses. The **Center's** current insurance policies have not been cancelled or terminated. Also, the **Center** pays premiums for workers compensation to the State Insurance Fund Corporation, a component unit of the Commonwealth of Puerto Rico, which provides workers compensation to the **Center's** employees in case of injuries in the workplace.

H. Reconciliation of Government-Wide and Fund Financial Statements

The basic financial statements of the governmental funds includes a reconciliation between the total fund balances of the governmental funds and the total net position of governmental activities as reported in the Government-Wide Statement of Net Position. The three (3) elements of the reconciliation are:

- Deferred outflows and inflows of resources
- Long-term liabilities, including compensated absences, loans and notes payable, pension and OPEB liabilities that are not due and payable in the current period, and therefore, are not reported in the governmental funds, and
- Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the governmental funds.

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

H. Reconciliation of Government-Wide and Fund Financial Statements (Continued)

Likewise**,** the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds includes a reconciliation between the excess (deficiency) of revenues over (under) expenditures and the change in net position as reported in the Government-Wide Statement of Activities.

The reconciliation explains, among other things, that the governmental funds report capital outlays as expenditures, but are capitalized and their costs allocated over their estimated useful life in the Government-Wide Financial Statements.

I. Leases

The **Center** evaluates its leases agreements to determine whether they meet the requirements of Government Accounting Standards Board Statement No. 87 (GASB 87), which requires recognition of certain assets and liabilities for leases that meet any of the criteria set forth in the GASB 87. The lease accounting model established by GASB 87 is based on the fundamental principle that leases are financings of the right to use an underlying asset, and therefore requires the lessee to recognize a lease liability and an intangible right-to-use the leased asset.

The criteria to be used to determine whether a lease should be recognized in the financial statements is as follows:

- The lease provides that the asset will be transferred to the lessee at the end of the lease.
- The lease gives the lessee an option to purchase the asset that the lessee intends to exercise.
- The lease period is for most of the remaining economic life of the asset.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments is equal to or substantially exceeds the entire fair value of the underlying asset.
- The asset is of such a specialized nature that it is expected to have no alternative use for the lessor at the end of the lease term.

2-CASH AND CASH EQUIVALENTS

A. Deposits

The **Center** 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 **Center**. It is the **Center's** policy to have all bank account openings approved by the Board. During the year ended June 30, 2022, the **Center** invested its funds in interest–bearing accounts.

2-CASH AND CASH EQUIVALENTS (CONTINUED)

B. Custodial Credit Risk

Custodial credit risk – deposits: is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The **Center** maintains cash deposits in one (1) commercial bank located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided (up to $250,000) by the Federal Deposit Insurance Corporation (FDIC). All securities pledged as collateral by the **Center** are held by agents designated by the Puerto Rico Secretary of Treasury but not in the **Center's** name. Total deposits in this commercial bank, at June 30, 2022, amounted to $832,151,588.

Deposits in commercial banks

The **Center** has the following depository accounts in one (1) commercial bank. All deposits are carried at cost plus accrued interest, if any.

Depository Account	Bank Balance at June 30, 2022
Deposits insured by the FDIC	$ 250,000
Deposits subject to the collateral requirements	831,901,588
Total deposits	$ 832,151,588

3-RECEIVABLES

The accounts receivable as of June 30, 2022 amounted to $705,540. This balance includes an amount of $578,761 mostly due from services charged to financial institutions for access through the web to the **Center's** tax system and sale of maps. It also includes a rent receivable for the amount of $109,114 and a portion of a claim submitted to the Federal Emergency Management Agency (FEMA) amounted to $17,665 to mitigate the impact of the expenditures incurred due to the damages caused by the Hurricane Maria.

4-ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Description	General Fund	Tax Amnesty Fund	Total Governmental Funds
Accounts payable	$ 3,218,462	$ 6,672	$ 3,225,134
Accrued liabilities	167,642	297	167,939
Total	$ 3,386,104	$ 6,969	$ 3,393,073

5-INTERFUND TRANSACTIONS

A. Due from/to other funds

Receivable Fund	Payable Funds	Amount
General Fund	Tax Amnesty Fund	$ 900,000
	Special Revenue Fund	119,045
	Fiduciary Fund - Property Tax Fund	8,611,064
		$ 9,630,109
Tax Amnesty Fund	Fiduciary Fund - Property Tax Fund	$ 4,157,457
Fiduciary Fund: Property Tax Fund	General Fund	$ 53,675
Citizens' Participation Fund	General Fund	4,000
Property Tax Fund	Tax Amnesty Fund	1,346,258
		$ 1,403,933

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6-CAPITAL ASSETS

The **Center's** capital assets activity for the year ended June 30, 2022 is as follows:

Governmental Activities:	Balance at July 1, 2021	Additions	Retirements	Reclassifications	Balance at June 30, 2022
Capital assets, not being depreciated:					
Land	$ 6,715,000	$ -	$ -	$ -	$ 6,715,000
Construction in progress	22,016	-	-	(22,016)	-
Total capital assets, not being depreciated	6,737,016	-	-	(22,016)	6,715,000
Capital assets, being depreciated:					
Building/infrastructure	9,785,000	-	-	-	9,785,000
Building/infrastructure improvements	4,614,070	467,369	-	22,016	5,103,455
Leasehold improvements	1,739,881	228,933	-	-	1,968,814
Office equipment	2,971,469	302,484	(10,901)	-	3,263,052
Right-to-use leased asset	482,343	-	-	-	482,343
Computers hardware and software	5,639,644	193,931	(19,584)	-	5,813,991
Vehicles	208,144	64,246	-	-	272,390
Other equipment	7,320,548	-	-	-	7,320,548
Total capital assets, being depreciated	32,761,099	1,256,963	(30,485)	22,016	34,009,593
Less accumulated depreciation for:					
Building/infrastructure	(4,403,250)	(244,625)	-	-	(4,647,875)
Building/infrastructure improvements	(1,530,864)	(108,965)	-	-	(1,639,829)
Leasehold improvements	(167,350)	(190,696)	-	-	(358,046)
Office equipment	(2,445,179)	(218,603)	10,901	-	(2,652,881)
Right-to-use leased asset	(249,211)	(96,468)	-	-	(345,679)
Computers hardware and software	(4,987,718)	(322,275)	19,584	-	(5,290,409)
Vehicles	(184,525)	(24,450)	-	-	(208,975)
Other equipment	(7,320,548)	-	-	-	(7,320,548)
Total accumulated depreciation	(21,288,645)	(1,206,082)	30,485	-	(22,464,242)
Total capital assets, being depreciated, net	11,472,454	50,881	-	22,016	11,545,351
Governmental activities capital assets, net	$ 18,209,470	$ 50,881	$ -	$ -	$ 18,260,351

The **Center** follows the provisions of GASB Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, an amendment of GASB Statement No. 34".* This Statement establishes guidance for accounting and reporting for impairment of capital assets and insurance recoveries. The **Center** did not recognize any impairment loss during the fiscal year ended June 30, 2022.

7-LEASE LIABILITY

The **Center** is a lessee for a noncancellable lease of office equipment. The **Center** recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the **Center** initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

- The **Center** uses the interest rates charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the **Center** generally used its estimated incremental borrowing rate as the discount rate for leases.
- The lease terms include the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the **Center** is reasonably certain to exercise.

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

During the year ended June 30, 2019, the **Center** entered into long-term, lease agreement as the lessee for the acquisition and use of office equipment. As a result of the implementation of the GASB Statement No. 87, "*Leases*", the **Center** now reports those as lease liability. As of June 30, 2022, the value of the lease liability was $170,423. The **Center** is required to make annual principal and interest payments of $104,328. The lease has an interest rate of 4.60%. The value of the right-to-use lease assets as of the end of the current fiscal year was $482,343 and had accumulated amortization of $345,679.

The future principal and interest payments as of June 30, 2022 for the next two (2) years are as follows:

Year ending June 30,	Principal Amount	Interest Amount	Total
2023	$ 98,891	$ 5,766	$ 104,657
2024	71,532	1,249	72,781
Total	$ 170,423	$ 7,015	$ 177,438

8-LONG-TERM LIABILITIES

Long term liability activity for the year ended June 30, 2022, was as follows:

	Beginning Balance, as restated	Net Change	Ending Balance	Due within One year
Claims and judgments	$ 87,500	$ -	$ 87,500	$ -
Lease liability	265,193	(94,770)	170,423	98,891
Accrued compensated absences	6,156,046	(646,917)	5,509,129	108,263
Pension liability	102,147,159	(2,695,300)	99,451,859	20,290,582
Other postemployment benefits liability	2,979,140	(143,693)	2,835,447	251,100
Total long-term liabilities	$ 111,635,038	$(3,580,680)	$108,054,358	$ 20,748,836

The long-term liabilities are described as follows:

1. **Claims and judgments -** Represents the estimated loss of legal cases to be paid subsequent to June 30, 2022. The awarded amount, if any, will be paid with unrestricted funds.

2. **Accrued compensated absences -** The Government-Wide Statement of Net Position includes $5,509,129 of accrued compensated absences benefits and accrued compensatory time representing the **Center's** commitment to fund such costs from future operations.

3. **Lease liability -** The **Center** has entered into long-term lease for office equipment. The outstanding balance as of June 30, 2022 was $170,423.

4. **Pension liability** – Information related to pension liability is included on **Note 13**.

5. **OPEB liability** – Information related to other postemployment benefits liability is included on **Note 14**.

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9-FUND BALANCES

Fund balances are classified as follow:

Fund Balance Classifications	General Fund	Tax Amnesty Fund	Special Revenue Fund	Total Governmental Funds
Committed				
Emergency repairs due to failure in power supply distribution in San Juan area	$ 43,208	$ -	$ -	$ 43,208
Emergency repairs due to failure in power supply distribution in South area	11,975	-	-	11,975
Capital improvements – Central Office	379,570	-	-	379,570
Electric Generation System – Central Office	545,000	-	-	545,000
Image Actualization – Digital Cadaster	2,747,774	-	-	2,747,774
Design and implementation of a structure for an improved collections and liens unit	-	4,254,199	-	4,254,199
Total committed	3,727,527	4,254,199	-	7,981,726
Assigned				
General, administrative and operational expenditures	6,457,737	52,431	-	6,510,168
Unassigned	11,309,485	-	127,014	11,436,499
Total fund balances	$21,494,749	$ 4,306,630	$ 127,014	$ 25,928,393

<u>General Fund</u>

The General Fund has unassigned fund balance of $11,309,485 at June 30, 2022. Also, it has assigned funds consisting of balances reserved for outstanding contracts and purchase orders of $6,457,737. In addition, the General Fund has $3,727,527 committed for special projects as determined by the Board's Resolutions.

10-CUSTODIAL FIDUCIARY FUND

A. Custodial Funds

Agency funds report resources held by the **Center** in a purely custodial capacity. The **Center** received resources from grants or other legally sources that are transferred to the Municipalities. The **Center** serves only as a cash conduit, that is, it has not administrative or direct financial involvement in the program, therefore these resources were reported in an agency fund as required by GASB Statement No. 34, and neither revenue nor expenditures are recorded, and no fund balance is required.

The agency fiduciary fund is used to account for the: (a) citizens' participation fund, (b) municipal redemption fund and (c) property taxes fund, which are custodial in nature and do not involve measurement of results of operations. These agency funds are described below:

I. Citizens' Participation Fund

The **Center** is responsible for the receiving and distribution of funds assigned by the Commonwealth for Citizens' Participation in the Municipal Development Program (the Program). The Program was established by Act No. 81 of August 30, 1991, repeals by Act No. 107 of August 14, 2020 and is funded through legislative appropriations. Programs funds are distributed to the Municipalities based in certain specific criteria established by the Act. As of June 30, 2022, the funds available for distribution amounted to **$4,000**.

II. Municipal Redemption Fund

The Municipal Redemption Fund is used to service the debt of the Municipalities. As described on **Note 11,** on November 29, 2018, the **Center**, FAFAA and GDB provided and amendment and full reformulation of the **Center's** deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80 (repeals by Act 107 of August 14, 2020), in order to appoint FAFAA as trust's designated trustee. Also, on November 29, 2018, the **Center** (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant the provisions of the amended and restated "Deed of Trust No. 58". The FAFAA bank maintains records of outstanding municipal bonds and notes, makes principal and interest payments on their due dates, and notifies the **Center** of the amounts paid. The fund increases by the collections of the designated portions of real and personal property taxes. During the fiscal year 2021-2022, the **Center** collected for the Municipal Redemption Fund the amount of $417,462,319. Total debt service payments amounted to $184,730,266. Of such amount, principal and interest amounted to $146,284,920 and $38,445,346, respectively.

Outstanding notes and bonds of all Municipalities as of June 30, 2022 amounted to $1,439,786,539. On July 1, 2022, the **Center** made a payment amounting to $175,552,999, including principal of $142,222,883 and interest of $33,330,116.

10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

A. Custodial Funds (continued)

III. Property Tax Fund

Real property taxes are assessed every July based on the taxable values as of January 1, using the estimated values of 1957. Assessed values of personal property are based on the book value at January 1 of each year. Property taxes are assessed for all properties located at the Commonwealth. Real property taxes are billed by the **Center** and are due in two (2) equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the related property tax return is required to be filed. Personal property tax payers are required to make four (4) quarterly estimated payments to pay the self-assess contribution on or before May 15.

The property tax rates per annum vary among Municipalities. For the fiscal year 2021-2022, the rates were comprised as follows:

	Personal Property		**Real Property**	
	Minimum	**Maximum**	**Minimum**	**Maximum**
Basic	3.72%	4.00%	5.72%	6.00%
Contribution to debt redemption funds:				
State	1.03%	1.03%	1.03%	1.03%
Municipal	1.00%	5.50%	1.20%	5.50%

Total property tax rates, charged to taxpayers, varied from 5.80% to 10.33% for personal property and 8.03% to 12.33% for real property.

The property tax fund includes a total of approximately $4.85 billion in gross receivables. Of these, approximately $4.31 billion and $541 million are included in the accounts of real and personal property taxes, respectively. Management has performed an in-depth analysis of the aged receivables and has determined to establish an allowance for uncollectible accounts of 81%.

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10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

A. Custodial Funds (Continued)

The following table summarizes the accounts receivable from real and property taxes of the **Center's** Custodial Fiduciary Fund.

Account Type	Principal	Discounts	Interest	Penalties and Others	Total	Reserve
Governmental agencies	$ 89,259,854	$ (7,362)	$ 122,765,474	$ 8,840,980	$ 220,858,946	$ 220,858,946
Bankruptcy	18,414,105	(15,347)	8,133,444	2,066,710	28,598,912	27,803,465
Remaining accounts receivable balance	1,828,020,036	(698,214)	2,589,397,744	181,835,561	4,598,555,127	3,632,242,847
Total	$ 1,935,693,995	$ (720,923)	$ 2,720,296,662	$ 192,743,251	$ 4,848,012,985	$ 3,880,905,258

B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the transfers of funds provided by the Commonwealth of Puerto Rico (the Commonwealth) to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the **Center** to the Municipalities.

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2021-2022, the **Center** shall experience a decrease of revenues of $37,096,000. This amount represents a decrease of 21.33% in revenues compared to the prior fiscal year, as presented below:

Revenue Source	2021-22 Budget	2020-21 Budget	Increase (Decrease)	Percentage of Change
General Fund (Transfers)	$ 87,892,000	$ 131,838,000	$ (43,946,000)	(33.33)%
35% of Puerto Rico Additional Lottery System	48,950,000	42,100,000	6,850,000	16.27%
Total	$ 136,842,000	$ 173,938,000	$ (37,096,000)	(21.33)%

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10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

B. Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico (Continued)

However, during the fiscal year 2021-2022, total actual transfer of funds from the Commonwealth's General Fund and the Lottery amounted to $138,435,301, representing a decrease of $40,402,699 or 22.59%, compared with prior year. Also, during fiscal year 2021-2022, basic property taxes increased by $10,570,316 or 4.07% compared to prior fiscal year. Accordingly, during fiscal year 2021-2022, total revenues experienced a decrease of $29,832,383 or 6.80%, as shown in the following table:

Revenue Source	2021-22	2020-21	Increase (Decrease)	Percentage of Change
35% of Puerto Rico Additional Lottery System	$ 50,543,301	$ 47,000,000	$ 3,543,301	7.54%
General Fund (Transfers)	87,892,000	131,838,000	(43,946,000)	(33.33)%
Sub-total	138,435,301	178,838,000	(40,402,699)	(22.59)%
1% and 3% basic property taxes	270,196,564	259,626,248	10,570,316	4.07%
Total	$ 408,631,865	$ 438,464,248	$ (29,832,383)	(6.80)%

C. Equalization Process

Act No. 107 of August 14, 2020, as amended, established a special fund known as the Equalization Fund ("Fondo de Equiparación") for the purpose of ensuring that all Municipalities receive at least the same amount of revenues as they received on the prior year from these sources.

The Equalization Fund shall include the following:

(a) All funds derived from basic property taxes assessed by the Commonwealth of Puerto Rico prior to the 1991 Municipal Reform corresponding to a tax rate of 1% for personal property tax and a tax rate of 3% over the assessed value of all real estate property in Puerto Rico, not otherwise exempt. For the fiscal year ended June 30, 2022, these funds amounted to $270,196,564.

(b) 2.50% for the fiscal years after 2002-2003 of the net internal revenue of the Commonwealth of Puerto Rico. However, during the last fiscal years, this amount has been reduced under the provision of the Commonwealth's approved fiscal plan under PROMESA. For the fiscal year ended June 30, 2022, total transfers received from the Commonwealth amounted to $87,892,000.

(c) An amount equal to 35% of the Puerto Rico Additional Lottery System (the Lottery) net operational income. However, during the last fiscal years, the financial statements of the Lottery are not available at the date of the issuance of this report. Accordingly, for the fiscal year ended June 30, 2022, the funds received by the **Center**, which are included in the schedule, amounted to $50,543,301.

10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

C. Equalization Process (Continued)

(d) An amount equal to 2% of the state imposed penalties described under Sec. 5001 of Title 9, known as the Puerto Rico Vehicles and Transit Law ("Ley de Vehículos y Tránsito de Puerto Rico") to be distributed by Municipalities by the **Center**. Funds under this item shall be collected and distributed to the corresponding Municipalities directly by Puerto Rico Treasury Department; therefore such amounts are not part of the Schedule.

Funds received under items (a) above are distributed to the corresponding Municipalities. Funds received under items (b) and (c) above are distributed to the Municipalities up to the amounts required to make each Municipality's revenue equal its revenue from these sources for the prior fiscal year (i.e., equalize the Municipalities). Any excess funds received under items (b) and (c) above are distributed to the Municipalities using the four (4) factors provided by Act No. 107.

However, due to the deficiency of funds for the equalization process caused by the periodic reductions of Commonwealth's transfers to the **Center**, the Act No. 107 of August 14, 2020, states that the **Center's** Governing Board has the authority to establish the formula to determine the bases for the equalization and distribution of funds to the Municipalities.

As described before, due to the reductions of Commonwealth transfers to the **Center**, the funds collected during the fiscal year were not sufficient to provide an equalization of revenues for all the municipalities. Accordingly, a deficiency of funds for the equalization of revenues resulted in the amount of $115,813,217, as shown in the following table:

Funds required for the equalization of revenues	$ 515,528,920
1% and 3% basic property taxes	(270,196,564)
Excess of revenues over the equalization requirements	8,916,162
Total funds required to be covered with General Fund transfers and Lottery	254,248,518
General Fund (transfers)	(87,892,000)
Funds from the Puerto Rico Additional Lottery System	(50,543,301)
Deficiency of funds for equalization of revenues	$ 115,813,217

10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

C. Equalization Process (Continued)

Taking into consideration the deficiency of funds, the liquidation schedule for the fiscal year 2022 was prepared based on the following assumptions:

1. Computation of the equalization of funds for all Municipalities using the results obtained during fiscal year 2016-2017 as base year.

2. Seven (7) Municipalities which resulted with an excess of revenues over the equalization requirements of $8,916,162, will receive such excess and was excluded from the distribution of the deficiency of funds for equalization of revenues.

3. The requirement for equalization of revenues with the General Fund transfers and the Lottery for the remaining seventy one (71) Municipalities amounted to $254,248,518. Notwithstanding, funds available for distribution amounted to $138,435,301, which were distributed based on the proportionate share of each Municipality of the total of funds amounted to $254,248,518, resulting in a deficiency of funds of $115,813,217.

During the fiscal year 2022, the **Center** distributed to the Municipalities $270,196,564 of 1% and 3% of basic property taxes, $370,890,746 of basic non exempt portion of property taxes, $87,892,000 of General Fund transfers and $50,543,301 of the Electronic Lottery System. As of June 30, 2022, the balance due from the Commonwealth of Puerto Rico related to the Electronic Lottery System amounted to $27,934,609. This balance due is related to the difference of funds liquidation for fiscal years ended from June 30, 2016 to June 30, 2021, based on the amounts presented in the audited financial statements of the Lottery. It also included the balance due from the estimated budget provided by the Lottery to the **Center** for the fiscal year 2021-2022 amounting to $20,543,301.

As described on **Note 19**, one of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the Commonwealth's General Fund transfers of funds given to the Municipalities. Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2022-2023, the estimated reduction of revenues will be $44,866,000. Accordingly, during fiscal year 2022-2023, the Municipality's income will experience a reduction of 32.79%.

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10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

D. Debt service provided by the Property Tax Fund

The property tax fund provides debt services to the municipal governments for the repayments of the following debts:

- Line of credit agreements**:** In accordance with Act No. 42 of January 29, 2000, the **Center's** Board approved a line of credit with GDB amounting to $166,449,961 to finance the accumulated debt due from Municipalities up to June 30, 2000 for the excess of remittances received by the Municipalities. The line of credit proceeds was used to pay off statutory and fiduciary obligations. This line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the Municipalities. In accordance with Act No. 146 of October 11, 2011, the **Center** approved a line of credit amounting $105,000,000 to repurchase the tax liens sold to Puerto Rico Public Finance Corporation on June 30, 1998. The line of credit will be repaid from the increase of .48% of fixed subsidy of the net internal revenue of the Commonwealth granted to the Municipalities. The amount collected from the delinquent tax debt would be applied to principal. The **Center** cannot determine the amount to be collected from the delinquent tax debts. For these lines of credit, the **Center** has received the signed resolutions and notes payable from Municipalities. Once the Municipalities completed such documents, each individual note became part of the Municipal Redemption Fund.

  As described on **Note 19**, on August 4, 2022, the **Center** reached an agreement with creditors for the settlement and cancellation of the outstanding balance of debt related to Act No. 42.

- Insurance and other withholdings: As part of the monthly remittances distributed by the **Center**, the Municipalities authorize the **Center** to withhold funds for the payment of the following obligations:

  (1) **Municipal insurance policies:** The Municipalities carry commercial liability insurance to cover casualty, theft, tort claims, and other losses. Insurance policies were negotiated by the Puerto Rico Treasury Department. Since 2012, the Municipalities were allowed to negotiate their insurance policies directly with the insurance providers. As of June 30, 2022, all the Municipalities negotiate their own insurance policies with private insurance providers.

  (2) **Loans:** The **Center** also withholds all amounts due by Municipalities on their loans payable to the FAFAA and commercial banks.

  (3) **Payments due to governmental entities:** Certain amounts due to other governmental entities under payment plans subscribed by the Municipalities or by statutory acts.

  (4) **Center's administrative expenses:** An amount equal to 5% of collections of the property taxes is set aside to cover for the **Center's** administrative expenses.

10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

E. Special Regulation in Benefit of the Taxpayer for Payment of Debt

On September 24, 2021, the **Center's** Governing Board approved the Delinquent Debt Collection Program, through regulations under Article 7.070 of Act No. 107-2020, as amended, known as the Municipal Code of Puerto Rico.

On November 4, 2021, the regulation was approved and registered in the Department of State as Regulation No. 9323: "Special Regulation in Benefit of the Taxpayer for Payment of Debt" (hereinafter "the Regulation"). The purpose of the Regulation is to provide an opportunity to tax payers to update their records and pay debts on the delinquent real property tax, establishing a uniform procedures that has the prior consent of the **Center** Governing Board, the Secretary of Treasury and the Mayor where the property is located, since it grant discounts to the principal amount of debts, as established in the Article 7.070 of Act No. 107-2020.

The Delinquent Debt Collection Program (the program) created by virtue of the provisions of the Regulation, established the following:

a) Debts for Tax on Real property for fiscal years 2019-2020, 2018-2019, 2017-2018 and 2016-2017:

- If the taxpayer pays between November 5, 2021, and January 31, 2022, will pay only the principal, without interest, surcharges, or penalties.
- If the taxpayer pays between February 1, 2022, and May 2, 2022, will pay the principal and interest, without surcharges or penalties.

b) Debts for Tax on Real Property prior to fiscal year 2016-2017:

- If the taxpayer pays between November 5, 2021, and January 31, 2022, will be entitled to a discount of fifty-five percent (55%) on the principal owed, without interest, surcharges, or penalties.
- If the taxpayer pays between February 1, 2022, and May 2, 2022, will be entitled to a forty percent (40%) discount on the principal owed; without interest, surcharges or penalties.
- If the taxpayer pays between May 3, 2022, and June 30, 2022, will entitled to a twenty-five percent (25%) discount on the principal owed, without interest, surcharges, or penalties.

10-CUSTODIAL FIDUCIARY FUND (CONTINUED)

E. Special Regulation in Benefit of the Taxpayer for Payment of Debt (Continued)

b) Debts for Tax on Real Property prior to fiscal year 2016-2017 (Continued)

In order to qualify for the program, the tax payer must pay or have paid the taxes on real property for the years 2020-2021 and 2021-2022 in a single payment or made a payment plan with the **Center** in accordance of Article 7.060 of Act No. 107-2020. Other terms and conditions are provided in the Regulation.

The amounts collected for payments received as part of the Delinquent Debt Collection Program established by this Regulation will be deposited on an special account designated by the **Center**. The funds that make up the portion of the Basic Tax Contribution that enter in the special account will be distributed by the **Center** accordingly with the following order of priority:

a) To the **Center**, 5% of the Basic Tax collected for operational and management expenses.
b) To satisfy the debts of those municipalities who still own balance product of the declaration of nullity of Act No. 29-2019, consisting of the obligation to prepay municipal pensions ("PayGo") and payments to the Health Insurance Administration ("ASES").
c) To pay debts incurred by the **Center** for the benefit of the municipalities, in accordance with Act No. 42-2000 and Act No. 146-2001, in the event that the **Center** reaches a payment agreement with its creditor and obtains the necessary approvals, as established by Act.
d) For municipalities.

The funds that make up the portion of the Special Additional Tax that are entered into the special account will be distributed to the Municipal Debt Redemption Fund. The funds that known as 1.03% that are entered into the special account will be distributed to the State Redemption Fund.

On January 24, 2022, the Center issued the Administrative Order No. 2022-001, to amend the Article 8 of the Regulation to extend the 55% discount period for delinquent debts prior to fiscal year 2016-2017 until February 28, 2022. Also, the benefit for delinquent debts from fiscal years 2016-2017 to 2019-2020 is extended until February 28, 2022.

The **Center** established all internal guides and procedures necessary to standardized, implement and execute all the provisions as established by the Regulation.

As described on **Note 19**, the **Center** collected $217 millions during the period from November 5, 2021 to June 30, 2022, as a result of the provisions established in this regulation.

11-TAX ABATEMENTS

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.

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.

11-TAX ABATEMENTS (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 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 industry 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 the 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 business 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.
- 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.

11-TAX ABATEMENTS (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)

- 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 Commerce ("DDEC").

Subtitle B- Chapter 5 (previously ACT 118 of 2010 - " Municipal Economic and Tourist Development Incentives Act")

Purpose: Foster the economic development of municipalities.

Tax Benefits:

- A gradual Tax Rate Schedule for the net income generated at a tourist facility from 8% to 25%, depending on the total amount of private capital investment of the grantee.
- The income from the operation of games of chance at a tourist facility shall not be subject to any sales tax and that the facility shall enjoy an exemption of ninety percent (90%) of the preferential tax on real and personal property used.

Subtitle B- Chapter 9, Subtitle C- Chapter 5 and Subtitle E- Chapter 1 (previously ACT 27 of 2011 - "Puerto Rico Film Industry Economic Incentives Act")

Purpose: Provide an adequate framework for the continued development of our film industry and other related activities; providing tax incentives to attract foreign capital and foster the economic development and social wellbeing of Puerto Rico.

Tax Benefits (Exemptions):

- Tax credit amounting to forty percent (40%) of those amounts certified by the Auditor as disbursed in connection with all Puerto Rico Production Expenditures, except for payments made to Nonresident Talent; and twenty percent (20%) of those amounts certified by the Auditor as disbursed in connection with Puerto Rico Production Expenditures consisting of payments to Nonresident Talent.
- Grantees and their contractors or subcontractors shall enjoy up to seventy-five percent (75%) exemption on any tax, levy, fee, licenses, excise tax, rate, or charge for the construction of works to be devoted to a film industry activity within a municipality, imposed by any ordinance of any municipality.

11-TAX ABATEMENTS (CONTINUED)

Subtitle B- Chapter 9, Subtitle C- Chapter 5 and Subtitle E- Chapter 1 (previously ACT 27 of 2011 - "Puerto Rico Film Industry Economic Incentives Act") (Continued)

Tax Benefits (Exemptions) (Continued):

- Grantee's net income directly derived from the exploitation of activities covered under a grant shall be subject to a fixed income tax rate of four percent (4%), in lieu of any other tax, if any, provided in the Code or any other Puerto Rico law.
- The real or personal property devoted to activities covered by a grant that is otherwise subject to taxation, shall be entitled to a seventy-five (75%) exemption from all municipal and Puerto Rico taxes on real or personal property.
- No grantee shall be subject to municipal license taxes, construction excise taxes, and other municipal income taxes imposed by a municipal ordinance.
- A special tax shall be imposed, collected and paid in lieu of any other taxes and regardless of any exemption provided in the Code, of twenty percent (20%) on the total amount received by any Nonresident Talent.
- Access to the Economic Incentive Fund administrated by the Department of Economic Development and Commerce ("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:

- 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 Commerce ("DDEC").

11-TAX ABATEMENTS (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.
- "Bona fide farmer" shall not be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

Subtitle B- Chapter 7 and Subtitle E- Chapter 1 (previously ACT 83 of 2010 - "Green Energy Incentive Act")

Purpose: To further renewable energy generation, in accordance with short, medium and long-term mandatory goals; to empower the Energy Affairs Administration to incentivize compliance with compulsory goals and development of sustainable renewable energy and alternative renewable energy; to establish measures aimed at fostering the development of sustainable energy systems that further energy use savings and efficiency through the establishment of a fund denominated "Green Energy Fund"; to organize and standardize the existing incentive and create new incentive that stimulate the proliferation of these energy sources, and to amend certain existing laws.

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11-TAX ABATEMENTS (CONTINUED)

Subtitle B- Chapter 7 and Subtitle E- Chapter 1 (previously ACT 83 of 2010 - "Green Energy Incentive Act") (continued)

Tax Benefits (Exemptions):

- Fixed income tax rate of four percent (4%) on revenues derived from eligible businesses and companies.
- Exemption up to one hundred percent (100%) for the payment of real and personal property over assets used in eligible businesses or companies.
- Exemption up to ninety percent (90%) on municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance in eligible businesses or companies.

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 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 commerce ("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.

11-TAX ABATEMENTS (CONTINUED)

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.

Other significant laws enacted by the Commonwealth of Puerto Rico to assess economic development are:

ACT 168 of 1968, as amended - "Act to Grant Tax Exemption to Hospitals"

Purpose: To grant tax incentives to Hospitals and other applicable health provider's facilities in order to promote its development by providing the ability to raise funds to invest on its operations 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%) for the payment of real and personal property over assets used to provide health services.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical treatment or diagnostics.
- 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.

Other Acts Enacted by the Commonwealth of Puerto Rico

The following are other Acts enacted by the Commonwealth of Puerto Rico, which may grant tax incentive and benefits to eligible participants.

- Act 148 – 1988, as amended, "Act for the Rehabilitation of Santurce"
- Act 75 – 1995, as amended, "Special Act for the Rehabilitation of Río Piedras"
- Act 14 – 1996, as amended, "Special Act for the Rehabilitation of Castañer"
- Act 178 – 2000, as amended, "Special Act for the Creation of the Theatrical Distric"

These enacted laws only applied to taxpayers which businesses or companies are located in certain Municipalities or sectors of Puerto Rico.

11-TAX ABATEMENTS (CONTINUED)

Municipal Ordinances and Agreements

Purpose:

In order to promote economic development behind the boundaries of the Municipality, most of the seventy eight (78) Municipal Legislatures has approved and issued ordinances in other to grant exemption to businesses and companies from the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance.

Tax Benefits (Exemptions):

The percentages of exemptions granted by each of the seventy eight (78) Municipalities for the payment of property taxes (personal and real), municipal license taxes, construction excise taxes and other municipal income taxes levied by a municipal ordinance may vary in accordance with the agreement established with each eligible business or company.

The following table shows the amount of real property tax abatement during the fiscal year ended June 30, 2022.

Industry / Business	Real Property Tax Abatement	% of total Abatement
Buildings used for warehouses	$ 60,862,536	18.52%
Pharmaceutical companies	80,097,040	24.38%
Hotels and related businesses	18,755,774	5.71%
Industrial companies and businesses	108,125,739	32.91%
Other industries and businesses	60,758,381	18.49%
Total	$ 328,599,470	100.00%

As derived from the previous table, the industries with the highest tax abatement of real property tax during the fiscal year ended June 30, 2022 are the industrial companies and businesses and the pharmaceutical companies, which represented 32.91% and 24.38% of total tax abatement, respectively.

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11-TAX ABATEMENTS (CONTINUED)

The following table shows the amount of personal property tax abatement during the fiscal year ended June 30, 2022.

Industry / Business	Personal Property Tax Abatement	% of total Abatement
Pharmaceutical companies	$ 225,643,494	28.97%
Industrial companies and businesses	329,872,137	42.35%
Professional services	7,057,198	0.91%
Commercial companies and businesses	190,133,583	24.41%
Other industries and businesses	26,187,458	3.36%
Total	$ 778,893,870	100.00%

As derived from the previous table, the industries with the highest tax abatement of personal property tax during the fiscal year ended June 30, 2022 are the industrial companies and businesses and the pharmaceutical companies, which represented 42.35% and 28.97% of total tax abatement, respectively.

12-DEED OF TRUST

On November 2, 2015, the **Center** (the Trustor) and the GDB (the Trustee) signed a deed of trust to create a Trust Fund pursuant the requirement and provisions of Article 4 of Act No. 80 of August 30, 1991, as amended. The Trust shall receive: 1) all property taxes revenues collected by the **Center** pursuant the provisions of Articles 2.01 and 2.02 of Act No. 83 of August 30, 1991, as amended; 2) revenues derived from the “Additional Lottery System”; 3) and a percent of internal revenues corresponding to the Municipalities; and 4) any other revenue established by law corresponding to the Municipalities. The Trustee shall make payments to the beneficiaries (the Municipalities) of the Trust based on the criteria and priorities established by the **Center** pursuant the provisions of Article 17 of Act No. 80 of August 30, 1991, as amended. The Trust Fund’s beginning capital balance amounted to $291,103,470, based on the deposits held by the Trustee as October 31, 2015.

On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 *“The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)”* in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA) and to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico. Under the provisions of this Act, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended.

12-DEED OF TRUST (CONTINUED)

Amendment and Restatement to Deed of Trust

On November 29, 2018, the **Center**, FAFAA and GDB provided an amendment and full reformulation of the **Center's** deed of trust under the "Deed of Trust No. 58". Accordingly, the government enacted Law No. 109 of August 24, 2017, to amend Law No. 80, in order to appoint FAFAA as trust's designated trustee or one or more private banking institutions that FAFFA might designate, replacing GDB. The funds deposited on the trust fund amounting to $363,617,079 at November 29, 2018 (excluding the funds deposited on the GDB which will be subject and used on the GDB restructuring transaction) represents the trust's available capital at that date. Under the provisions of the deed, the Trust shall receive: 1) all property taxes revenues collected by the **Center** pursuant the provisions of Article 2.01 (basic property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the Equalization Fund; 2) all property taxes revenues collected by the **Center** pursuant the provisions of Article 2.02 (special property tax) of Act No. 83 of August 30, 1991, as amended to be credited to the State Fund; 3) all collections by the **Center** related to additional special municipal tax subject to the requirements of Law No. 64 and Law No. 83 to be credited to Public Debt Redemption Fund; 4) any other future enacted tax that might be established by Law, to be credited under the provisions required by the Law.

Also, on November 29, 2018, the **Center** (as settlor), FAFAA (as trustee) and a commercial banking institution (as custody bank) made a second amendment and restatement to the "Trust Account Custody and Management Agreement" pursuant the provisions of the amended and restated "Deed of Trust No. 58". In addition, at that date, the GDB completed a restructuring of certain indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA.

As established by the deed of trust and its composition amended on November 29, 2018, there are three (3) funds within the Trust:

Municipal Redemption Fund - These are funds to pay bonds and loans payable from the Special Additional Tax (CAE). There are three (3) main creditors: private banks, the Puerto Rico Municipal Financial Agency (MFA) and the FAFAA.

Once in January and once in July, the FAFAA, as Trustee will pay the creditors from this fund. However, the Municipalities have the right to request once a year any excess of funds. FAFAA determines the excess of each Municipality and disburse such amount in accordance with applicable law.

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12-DEED OF TRUST (CONTINUED)

Matching Fund – These are the General Fund contributions to the Municipalities. These funds will be invested outside the FAFAA. There is no material impact on the FAFAA because these funds are deposited for a few days before being transferred to the Municipalities.

State Redemption Fund – This is comprised of the 1.03% of the property tax that is destined to the payment of the Commonwealth's General Obligations. Before the Trust was established, the **Center** transferred these funds directly to the Puerto Rico Department of Treasury. These funds shall be deposited in a bank account for the benefit of the State Redemption Fund.

13-PENSION PLAN

On August 23, 2017, Act No. 106 was enacted, which is known as the "Law to Guarantee Payment to our Pensioners". Under this Act, effective July 1, 2017, the General Fund, through the system of "pay-as-you-go" (PayGo), assumes the payments of the three Retirement Systems (Employees' Retirement System [ERS] of the Government of the Commonwealth of Puerto Rico, the Teachers' Retirement System and the Judiciary Retirement System), because the retirement plan have depleted the assets set aside to pay benefits.

Under the provisions of Act No. 106, the **Center** assumed the proportional share of the pension benefits of the **Center's** retirees. Also, under Act No. 106, active employees are required to contribute a minimum of 10% of their compensation, into a defined benefit plan, with no employer matching. Contributions by employees are deposited in a separate account for each employee fund and invested in accordance with certain guidelines. Upon retirement, employees will receive retirement benefits accumulated after the enactment of Act No. 106, with certain limitations, plus benefits accumulated until the enactment of Act No. 106, with certain limitations, including benefits accumulated under previous defined benefit, defined contribution and hybrid plans.

Benefits accumulated after the enactment of Act No. 106 include only those amounts contributed by the participant during that period and the yield from those deposits. Based on the investment instruments acquire by the participant there are investment risks that may impair the value of the participant account.

As of June 30, 2022, the **Center** disclosed a liability of $99,451,859 for its proportionate share of the total pension liability. This liability was determined as of June 30, 2021 (measurement date), based on the requirements of the GASB Statements No. 73. Accordingly, this total pension liability is recorded in the **Center's** accounting records as of June 30, 2022. The amount was measured as of June 30, 2021 and the total pension liability used to calculate the liability was determined by an actuarial valuation as of July 1, 2020, rolled forward to the measurement date of June 30, 2021.

The **Center's** share of total pension liability was based on a projection of the **Center's** long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. On June 30, 2021, the **Center's** proportionate share was 0.32387% which was an increase of 0.00154% from its proportionate share measured on June 30, 2020 (0.32233%).

The pension benefit recognized during fiscal year ended June 30, 2022 amounted to $957,091.

13-PENSION PLAN (CONTINUED)

Also, as of June 30, 2021 (measurement date), the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 840,116	$ 2,569,513
Change in assumptions	14,741,006	2,214,772
Benefits payments subsequent to measurement date	4,709,460	-
Total	$20,290,582	$ 4,784,285

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2021 (measurement date) will be recognized in pension expense (benefit) in future years as follows:

Fiscal Year Ending June 30,	Amount
2022	$ 1,543,650
2023	1,543,650
2024	1,543,650
2025	1,543,650
2026	1,543,650
Thereafter	3,078,587
Total	$ 10,796,837

Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial methods and assumptions applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Compensation increases	3% per year. No compensation increases are assumed until July 1, 2021, as a result of Act No. 3-2017, four-year extension of Act No. 66-2014 and the current general economy.

13-PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

The mortality tables used in the June 30, 2021 valuation were as follows:

Pre-Retirement Mortality: For general employees not covered by Act No. 127, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127-1958.

Post-Retirement Retiree Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of a Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement.

The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for female, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-Retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement.

The PubG2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-Retirement Beneficiary Mortality: Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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13-PENSION PLAN (CONTINUED)

Discount Rate

The discount rate was 2.16% on June 30, 2021. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Center's total pension liability to changes in the discount rate

The following table presents the **Center's** total pension liability calculated using the discount rate of 2.16%**,** as well as what it would be if it were calculated using a discount rate that is one-percentage-point lower (1.16%) or one-percentage-point higher (3.16%) than the current rate:

	1% Decrease	At Current Discount Rate	1% Increase
	1.16%	2.16%	3.16%
Total pension liability	$ 113,643,573	$ 99,451,859	$ 87,957,198

14-OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description

The **Center** is a participating employer in the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution (ERS-MIPC). ERS-MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

Benefits provided

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

14-OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits payments

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 **Center's** benefits payments are 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 benefits payments.

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.

Allocation Methodology

GASB Statement No. 75 requires that the primary government and its component units that provide OPEB benefits through the same defined benefit OPEB plan, recognize their proportionate share of the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. The employer allocation percentage presented in the schedule of employer allocations and applied to amounts presented in the schedule of OPEB amounts by employer are based on the ratio of the **Center's** actual benefit payments to the total actual benefit payments paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer may result in immaterial differences.

Total OPEB Liability and Actuarial Information

As of June 30, 2022, the **Center** reported a liability of $2,835,447 for its proportionate share of total collective OPEB liability. The total OPEB liability as of June 30, 2022, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021 (measurement date). As of June 30, 2021, the **Center's** proportionate share was 0.30606%. Also, for the year ended June 30, 2022, the **Center** recognized an OPEB benefit of $141,850.

The **Center's** total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

14-OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial assumptions

<u>Discount rate</u>

The discount rate for June 30, 2021 was 2.16%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer General Obligation (GO) 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

<u>Pre-retirement Mortality</u>

For general employees not covered under Act No. 127, PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. For members covered under Act No. 127, the PubS-2010 Employee Mortality Rates are assumed for males and females, projected to reflect Mortality Improvement Scale MP-2021 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

<u>Post-retirement Healthy Mortality</u>

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubS-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

<u>Post-retirement Disabled Mortality</u>

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females. The base rates are projected using Mortality Improvement Scale MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

14-OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Mortality (Continued)

<u>Post-Retirement Beneficiary Mortality</u>

Prior to retiree's death, beneficiary mortality is assumed to be the same as the post-retirement mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the **Center** at June 30, 2021, (measurement date), calculated using the discount rate of 2.16%, as well as the Plan total OPEB liability if it were calculated using the discount rate of 1-percentage point lower (1.16%) or 1-percentage point higher (3.16%) than the current rate:

	1% Decrease	At Current Discount Rate	1% Increase
	1.16%	2.16%	3.16%
Total OPEB liability	$ 3,110,450	$ 2,835,447	$ 2,601,036

Deferred Outflows of Resources and Deferred Inflows of Resources

GASB Statement No. 75 requires to determine deferred outflows of resources and deferred inflows of resources in order to be amortized and recognized in the annual OPEB expense. There are no deferred outflows or inflows of resources as changes in actuarial assumptions, economic or demographic gains and losses, and changes in proportionate share are recognized immediately during the measurement date. However, as of June 30, 2022, $251,100 was reported as deferred outflows of resources related to OPEB, resulting from the benefits paid subsequent to the measurement date, will be recognized as a reduction of total OPEB liability in the year ended June 30, 2022.

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15-CONTINGENCIES AND COMMITMENTS

Claims and Lawsuits

The **Center** is defendant in various lawsuits arising from its operations; management and legal counsels are of the opinion that a liability of $87,500 should be accrued in the Government-Wide Financial Statements to cover awarded or anticipated unfavorable judgments. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

Operating Leases

The **Center** is obligated under various lease agreements, which expire on October 10, 2031. Operating leases do not give rise to property rights or lease obligations, and accordingly, no long-term liability is reflected in the **Center's** financial statements for these lease agreements.

Therefore, installments of the operating leases are presented as rent expenditures. The rent expenditures for the fiscal year ended June 30, 2022 amounted to $1,399,597.

The following is a schedule of minimum rent payments required under operating leases that have initial or remaining non-cancellable lease term in excess of one year as of June 30, 2022:

Year ending June 30,	Amount
2023	$ 928,959
2024	803,118
2025	706,045
2026	676,172
2027	688,825
Thereafter	1,625,944
Total	$ 5,429,063

As of June 30, 2022, the **Center** recognized and recorded a debt with the Puerto Rico Public Buildings Authority (PRBA) amounting to $1,159,399. In addition, at that date, the **Center** has certain balances in dispute with the PRBA amounting to $3,910,888 related to the lease of various office spaces located in the Municipalities of Aguadilla, Arecibo, Caguas, Carolina, Mayagüez and Ponce.

Federal Award

The **Center** participates in federal assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audit by the appropriate grantor.

The **Center** was awarded with the following financial support during fiscal year 2020-2021:

- Puerto Rico COVID-19 Pandemic (DR-4493-PR) for the amount of $127,014.
- Premium Pay Program Funds from the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) established by the American Rescue Plan Act of 2021. The amount received amounted to $750,000.

15-CONTINGENCIES AND COMMITMENTS (CONTINUED)

Fiscal Plan Submissions and Certifications – the Center and Municipalities

During 2016, the **Center** was designated as a Covered Territorial Instrumentality pursuant to Section 101 of the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). In accordance with Section 101 (d)(1)(E) of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board determined that the Governor must provide the Oversight Board with an Instrumentality Fiscal Plan and an Instrumentality Budget for the **Center**.

In addition, pursuant to Section 101 of PROMESA and the resolution adopted by the Oversight Board at its May 9, 2019 meeting, the Oversight Board designated all seventy eight (78) Municipalities as Covered Territorial Instrumentalities subject to the requirements of PROMESA. In terms of the submission of the Instrumentality Fiscal Plans and an Instrumentality Budgets required by Section 101 (d)(1)(E) of PROMESA, the Oversight Board determined in the resolution adopted at its May 9, 2019 meeting, to apply this provision to an initial group of ten (10) Municipalities as a pilot plan for assessing and enhancing municipal financial and budgetary practices, and for create new economic development strategies to address municipal fiscal challenges. As a part of the pilot plan, the ten (10) Municipalities will receive technical assistance from the Oversight Board. These initial actions should serve to begin achieving fiscally sustainable local units of government and to help pave the way for a broader municipal fiscal strengthening.

The ten (10) Municipalities selected were Aibonito, Barranquitas, Camuy, Cidra, Comerío, Isabela, Orocovis, Quebradillas, San Sebastián and Villalba. These Municipalities were selected considering a combination of factors such as fiscal challenges, impact of the reduction of transfers from the Central Government, and their experience implementing innovative and creative initiatives and collaborating with other Municipalities.

On April 16, 2021 the Oversight Board announced the conclusion of its pilot program effective June 30, 2021 stating that all 78 municipalities will remain covered entities and that they will continue to provide support to help improve municipalities' fiscal stability.

The Governor must provide to the Oversight Board with an Instrumentality Fiscal Plan (Municipal Fiscal Plan) and an Instrumentality Budget (Municipal Budget) for each of the selected Municipalities under the pilot plan.

On June 26, 2020, the Oversight Board certified a Fiscal Plan for the **Center** for fiscal years 2021 to 2025 (the fiscal plan). In accordance with "PROMESA", this Fiscal Plan projects a baseline forecast of the **Center's** sources and uses of funds for the next five fiscal years based on historical trends and discussions with the **Center's** management. In order to provide a greater revenue base for Municipalities and ensure greater fairness in property tax collections, certain measures have been developed to improve operations and increase tax collections at the **Center**. These measures are incremental to the baseline projections and must be adopted and successfully implemented to achieve the targets of the Fiscal Plan.

15-CONTINGENCIES AND COMMITMENTS (CONTINUED)

Fiscal Plan Submissions and Certifications – the Center and Municipalities (Continued)

The measures outlined in the Fiscal Plan were developed around improving the competitiveness of Puerto Rico's property tax regime and the enhancement of collections to reduce reliance on less optimal taxes, such as the inventory tax charged to businesses. The measures focus on:

- **Operational efficiencies -** the **Center** is undergoing an operational transformation centered around the replacement of outdated and inefficient applications and hardware; implementation of best practices for business continuity; decentralization of services and re-engineering of processes to improve services to Municipalities and taxpayers; along with the establishment of a data-driven culture. These initiatives should serve as the foundation that will enable the **Center** to implement strategies for the successful enhancement of tax revenue collections.
- **Tax revenue collection enhancement -** the Fiscal Plan outlines measures that the **Center** will undertake to better capture unrealized tax revenues by increasing tax compliance and improving overall collection rates. This will help reduce Puerto Rico's reliance on other undesirable taxes, which would improve its competitiveness and attractiveness for local and foreign investment.

On April 23, 2021, the Board certified a fiscal plan for the **Center** for fiscal years 2022-2026, as an update and continuation of the requirements set forth in the FY2021 Certified Fiscal Plan approved on June 26, 2020. The new plan is highlighting what was accomplished during the fiscal year and mapping what lies ahead. As described above, the **Center** is maintaining the measures set forth in the FY2021 Certified Fiscal Plan, as much work still needs to be completed to improve operations, provide a greater revenue base for municipalities, and ensure greater fairness in property tax collections, all of which will result in increased tax collections for the municipalities. The measures outlined in the new Fiscal Plan center around to continue improving the competitiveness of Puerto Rico's property tax regime and the enhancement of collections to reduce reliance on Central Government transfers and less optimal taxes, such as the inventory tax charged to businesses.

Success of the implementation of the initiatives outlined in the Fiscal Plan will come from the **Center's** ability to effectively collaborate with Municipalities, other government agencies, and the Oversight Board.

Commonwealth Plan of Adjustment

On January 18, 2022, the Federal Court confirmed the Commonwealth Plan of Adjustment, restructuring approximately $35 billion of debt and other claims against the Commonwealth of Puerto Rico, the Public Buildings Authority (PBA), and the Employees' Retirement System (ERS), as well as more than $50 billion of unfunded pension liabilities. The Plan of Adjustment saves Puerto Rico more than $50 billion in debt service and reduces outstanding obligations to just over $7 billion.

The confirmed Plan of Adjustment ends the long-term uncertainty of the resources needed for future debt service and other liabilities. With a more affordable and certain level of debt service, the Commonwealth can now use all other available resources to provide effective service for the people and business community of Puerto Rico.

15-CONTINGENCIES AND COMMITMENTS (CONTINUED)

Fiscal Plan Submissions and Certifications – the Center and Municipalities (Continued)

On January 27, 2022, a revised version of the fiscal year 2022 Fiscal Plan was certified by the Board, following the approval of the Commonwealth Plan of Adjustment. The 2022 Fiscal Plan considered the new debt service costs as included in the Plan of Adjustment and other critical actions necessary to restore fiscal responsibility in Government and financial stability.

The Fiscal Plan includes prioritizes resource allocations across a few major themes:

- Investing in the operational capacity of government to deliver service with Civil Service Reform (CSR), including increasing salaries.
- Prioritizing obligations to current and future retirees.
- Creating a fiscally responsible post-bankruptcy Government.
- Continuing investments in sustained priorities from prior fiscal plans.
- Increased resources available to the Commonwealth.
- Changes to expenditures post-bankruptcy.
- Long-term challenges for Puerto Rico.
- Importance of structural reforms.

The Board certified the fiscal year 2022 Fiscal Plan, as the Commonwealth emerges from bankruptcy with sustainable and stable debt service. Confirmation of the Plan of Adjustment and the unprecedented level of federal support provide an opportunity to transform this newfound predictability into stability, and economic prosperity.

16-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2021, the **Center** adopted the provisions of the following GASB Statements:

- **GASB Statement No. 87, *"Leases"* -** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

16-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 89, *"Accounting for Interest Costs Incurred Before the End of a Construction Period"* -** The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements",* which are superseded by this Statement.

  This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

- **GASB Statement No. 91, *"Conduit Debt Obligations" -*** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

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16-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 92, "*Omnibus 2020*" -** Effective Date: The requirements of this Statement, which were postponed one year by GASB Statement No. 95, are effective as follows:

  The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

  The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.

  The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

  The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

  Earlier application is encouraged and is permitted by topic.

- **GASB Statement No. 93, *"Replacement of Interbank Offered Rates" -*** Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.

  The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

  - Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.

  - Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.

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16-ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 93, *"Replacement of Interbank Offered Rates" (Continued)***

    - Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.

    - Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.

    - Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.

    - Clarifying the definition of reference rate, as it is used in Statement 53, as amended.

    - Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

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

    This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

    The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- **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. Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

  A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term.

  Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable.

  A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

  This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

  Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32" -*** The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

  This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

  This Statement supersedes the remaining provisions of Statement No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans",* as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of *all* Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

  Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance"*.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 98, *"The Annual Comprehensive Financial Report" -*** This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

  This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

  One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

  Little direct cost will be incurred as a result of instituting the new term. Moreover, there will be no direct benefits in the form of new or improved information for making decisions or assessing accountability. However, establishing a new name for the financial report in response to the concerns of stakeholders benefits all stakeholders. The Board believes that those benefits are qualitative and justify the costs that will result from implementing the new term.

  Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities.

  The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

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

  - Classification and reporting of derivative instruments within the scope of Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments"*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 99, *"Omnibus 2022" (Continued)*:**

  - 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.

  - Pledges of future revenues when resources are not received by the pledging government.

  - Clarification of provisions in Statement No. 34, *"Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments"*, as amended, related to the focus of the government-wide financial statements.

  - Terminology updates related to certain provisions of Statement No. 63, *"Financial Reporting of Deferred Outflows of* Resources, *Deferred Inflows of Resources, and Net Position*".

  - Terminology used in Statement 53 to refer to resource flows statements.

  - The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 99, *"Omnibus 2022" (Continued)***

  The requirements of this Statement that are effective as follows:

  - 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 Statements No. 62" -*** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

  This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability.

  This Statement 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.

17-FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- **GASB Statement No. 100*, "Accounting Changes and Error Corrections—an amendment of GASB Statements No. 62" (Continued)***

  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.

  This Statement also addresses corrections of errors in previously issued financial statements.

- ***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.

The impact of the implementation of these pronouncements on the **Center's** financial statements, if any, has not been determined.

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18-RESTATEMENT OF FINANCIAL STATEMENTS

As of July 1, 2021, the balance of the **Center's** net position have been adjusted by **$87,628,850** in order to account for the following transactions:

Net position, at beginning of fiscal year, as previously reported	$ 29,260,858
Prior period adjustment:	
Net effect of the adoption of GASB Statement No. 73	(84,902,653)
Net effect of the adoption of GASB Statement No. 75	(2,726,197)
Total prior period adjustment	(87,628,850)
Net position (deficit), at beginning of fiscal year, as restated	$ (58,367,992)

19-SUBSEQUENT EVENTS

Subsequent events were evaluated through April 28, 2023, the date financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted, except as noted in the following paragraphs.

Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico on the Budget for Fiscal Year 2022-2023

The Financial Oversight and Management Board approved a fiscal plan which included the progressive reduction of the Commonwealth's General Fund's transfers of funds given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the **Center**.

Based on the approved budget of Commonwealth of Puerto Rico for fiscal year 2022-2023, the estimated reduction of revenues will be $44,866,000. Accordingly, during fiscal year 2022-2023, the revenues will experience a reduction of 32.79% distributed as follows:

Revenue Source	2022-23 Budget	2021-22 Budget	Increase (Decrease)	Percentage
General Fund (Transfers)	$ 43,946,000	$ 87,892,000	$ (43,946,000)	(50.00)%
35% of Puerto Rico Additional Lottery System	48,030,000	48,950,000	(920,000)	(1.88)%
Total	$ 91,976,000	$ 136,842,000	$ (44,866,000)	(32.79)%

19-SUBSEQUENT EVENTS (CONTINUED)

Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico on the Budget for Fiscal Year 2022-2023 (Continued)

Also, the budget of the Commonwealth of Puerto Rico for the fiscal year 2022-2023 includes non-recurring funds amounted to $40,000,000 to provide economic support to the municipalities in order to face the increase in operational costs due to inflationary pressures. These funds will be distributed to the municipalities based on two criteria; a) the functional per capita budget of each municipality and b) the per capita appraised value of the taxable property located within the territorial limits of each municipality for the fiscal year 2021.

In addition, the budget includes funds amounted to $57,980,000 to provide financing to the Extraordinary Fund created pursuant to the Act 53-2021. This fund was created to address the collection and disposal of wastes and residuals and to implement recycling programs in the municipalities. These funds will be distributed to the municipalities based on the following:

a) The total number of persons per capita benefitting from the Supplemental Nutritional Assistance Program.
b) The functional per capita budget of each municipality.
c) The per capita appraised value of the taxable property located within the territorial limits of each municipality and,
d) The population of the municipality per square mile, according to the last ten-year census.

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

Pursuant to Section 207 of the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") must approve all debt transactions by the Government of Puerto Rico or its instrumentalities. In connection with this responsibility, on August 1, 2022, the Oversight Board approves the Debt Transaction described therein (the "Debt Transaction"). The Debt Transaction, consists of a Settlement Agreement (the "Settlement") between the Municipal Revenue Collection Center (CRIM, for its Spanish acronym) and the Government Development Bank ("GDB") Debt Recovery Authority (the "DRA") providing for the consensual settlement of: (i) the term loan in the original principal amount of $166,500,000 granted pursuant to a Loan Agreement by and between GDB and CRIM dated June 28, 2001, as amended, to cover the deficit that resulted from the payment of excess remittances to municipalities over several fiscal years (the "2001 Term Loan"), and (ii) the term loan in the original principal amount of $105,000,000 granted pursuant to a Loan Agreement by and between GDB and CRIM dated March 18, 2002, as amended, to repurchase certain municipal property tax liens that had been sold to the Puerto Rico Public Finance Corporation in 1998 (the "2002 Term Loan" and, together with the 2001 Term Loan, the "CRIM Loans"). The CRIM Loans were subsequently transferred by GDB to the DRA pursuant to the terms of the Master Transfer Agreement between GDB and the DRA in connection with GDB's debt restructuring process under Title VI of PROMESA. The Settlement brings resolution to approximately $130,906,530 of legacy debt dating back to the early 2000s. It provides much needed cash flow relief by fully settling the outstanding balances of 59 municipalities, in addition to agreeing to 3-year and 5-year shortfall notes for 14 municipalities (the "Shortfall Notes").

19-SUBSEQUENT EVENTS (CONTINUED)

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

As described in **Note 10**, during fiscal year 2022, the **Center** approved and established the "Special Regulation in Benefit of the Taxpayer for Payment of Debt" (hereinafter "the Regulation"). The purpose of the Regulation was to provide an opportunity to taxpayers to update their records and pay debts on the delinquent real property tax. The **Center** collected $217 millions during the period from November 5, 2021 to June 30, 2022, as a result of the provisions established in this Regulation. Accordingly, part of these funds was designated by the **Center** for the repayment and settlement of the outstanding balances as of June 30, 2022, of the obligations related to Act No.146-2001 and Act No. 42-2000, mentioned above.

On August 4, 2022, the **Center** reached an agreement with the creditors for the settlement of these debts, as presented below:

	Act No. 146	Act No. 42	Total
Balance as of June 30, 2022	$ 19,532,330	$ 88,022,613	$ 107,554,943
Forgiveness of debt principal amount	-	(13,194,555)	(13,194,555)
Adjusted balance as of June 30, 2022	19,532,330	74,828,058	94,360,388
Principal payment on July 1, 2022	-	(2,254,580)	(2,254,580)
Principal payment at closing from Special Collection Program Funds	(19,376,917)	(37,895,604)	(57,272,521)
Principal payment from other sources	(155,413)	(3,044,955)	(3,200,368)
Remaining balance	-	31,632,919	31,632,919
Amount of remaining debt restructured for fourteen (14) municipalities	-	(31,632,919)	(31,632,919)
Final adjusted balance	$ -	$ -	$ -

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:				
Property taxes administrative fees	$ 28,736,187	$ 30,109,803	$ 31,398,303	$ 1,288,500
Service charges to banks	1,039,259	1,039,259	2,107,041	1,067,782
Sales of certifications and maps	687,002	687,002	911,592	224,590
Interest income	203,000	203,000	8,160	(194,840)
Other income	5,500	5,500	139,862	134,362
Total revenues	30,670,948	32,044,564	34,564,958	2,520,394
OPERATING EXPENDITURES:				
Current:				
Salaries and fringe benefits	22,522,655	22,781,255	20,559,778	2,221,477
Professional and consulting services	2,014,475	2,114,287	2,068,607	45,680
Travel and representation	363,100	360,100	258,042	102,058
Capital outlays and supplies	164,000	1,033,460	942,549	90,911
Rent	1,283,244	1,306,004	1,283,458	22,546
Repairs and maintenance	1,824,551	1,659,695	1,644,487	15,208
Utilities	1,032,776	1,295,844	1,289,500	6,344
Printed forms	267,000	290,033	287,256	2,777
Postage	432,023	658,861	636,707	22,154
Interest and bank charges	237,500	275,499	273,142	2,357
Training	34,500	15,663	917	14,746
Insurance and premiums	185,000	210,932	210,932	-
Other	310,124	42,931	35,185	7,746
Total expenditures and encumbrances	30,670,948	32,044,564	29,490,560	2,554,004
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	$ -	$ -	$ 5,074,398	$ 5,074,398

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis) “available for appropriation” from the budgetary comparison schedule	$ 34,564,958
Differences-budget to GAAP:	
Non-budgeted transfer in	1,000,000
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	$ 35,564,958
Uses/outflows of resources:	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	$ 29,490,560
Differences-budget to GAAP:	
Prior year encumbrances recorded as current year expenditures for GAAP basis	3,419,651
Current year encumbrances recorded as expenditures for budgetary purposes	(1,766,742)
Expenditures considered for GAAP not for budget	486,867
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances	$ 31,630,336

The notes to the Budgetary Comparison Schedule are an integral part of this schedule.

1. BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The **Center's** budget is prepared for the General Fund following the requirements of the Act No. 107, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuring fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Governing Board. Certain budget transfers within the limitations and restrictions of the Governing Board can be approved by the Executive Director. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis, encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

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As of June 30,	2022	2021	2020
Center's proportion of the total pension liability	0.32387%	0.32233%	0.31569%
Center's proportionate share of the pension liability	$ 99,451,859	$ 102,147,159	$88,477,980

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

** Covered payroll is no longer applicable since contributions are no longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2020 was the first year that the **Center** transitioned from GASB Statement No. 68 to GASB Statement No. 73 as a result of the Pay-Go implementation. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is presented only for the years for which the required supplementary information is available.

As of June 30,	2022	2021	2020
Center's proportion of the total OPEB liability	0.30606%	0.29474%	0.28918%
Center's proportionate share of the total OPEB liability	$ 2,835,447	$ 2,979,140	$ 2,786,887

Notes to Schedule:

* The amounts presented have a measurement date of the previous year end.

** Covered payroll is no longer applicable since contributions are no longer based on payroll and were eliminated pursuant to Act No. 106-2017.

Note: Fiscal year 2020 was the first year that new requirements of GASB Statement No. 75 were implemented by the **Center**. This schedule is required to illustrate 10 years of information. However, until a 10-year trend has been completed, information is represented only for the years for which the required supplementary information is available.

1. The schedules are intended to show information for ten years. Additional years will be displayed as they become available. The information presented relates solely to the **Center** and not Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

2. The data provided in the schedules is based as of the measurement date of the total pension and total other postemployment benefits liabilities, which is as of the prior fiscal year ended June 30th.

3. On August 23, 2017, was enacted the Act No. 106, known as the "Act to Guarantee Payment to Our Retirees and Establish a New Plan for Defined Contributions for Public Employees". This Act determined and declared that the ERS, JRS and TRS are in a financial emergency. Also, by this Act is hereby created the Account for the Payment of Accumulated Pensions, a trust account, separated from the general assets and accounts of the Government, designated to pay the Accumulated Pensions by the ERS, JRS and TRS under the "Pay-As-You-Go" scheme, as established in Chapter 2 of this Act. Once Retirement Systems exhaust their assets, the Accumulated Pension Payment Account, which will be largely nourished by the General Fund, as provided in this Act, will assume and guarantee the payment of the Accumulated Pensions as established in this Act. However, the Municipalities, the Legislative Branch, the Public Corporations, the Government and the Administration of the Courts will be obliged to pay the PayGo Charge as appropriate to each one to nurture the Account for the Payment of the Accumulated Pensions.

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed-Through To Subrecipients	Federal Expenditures
US Department of the Treasury				
Pass-through the Puerto Rico Department of Treasury				
Coronavirus State and Local Fiscal Recovery Funds	21.027	N/AV	$ -	$ 750,000
Total US Department of the Treasury			-	750,000
US Department of Homeland Security				
Pass-through the Puerto Rico Central Office for Recovery, Reconstruction and Resiliency (COR3)				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA –DR 4339-PR	-	127,014
Total US Department of Homeland Security			-	127,014
Total Expenditures of Federal Awards			$ -	$ 877,014

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

GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the funds expended by the **Center** from all federal programs for the year ended June 30, 2022. The **Center's** reporting entity is defined in **Note 1** to the financial statements.

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards 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 of the amounts presented in the schedule may differ from the amounts presented in, or used in the presentation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the **Center**, it is not intended to and does not present the financial position and changes in net position of the **Center**.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures presented on the Schedule are reported on the modified 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 Public Assistance Grant (FEMA) are recognized in the period under (1) FEMA has approved the PW, and (2) eligible expenditures are incurred.

The Federal Assistance Listing Number (ALN), formerly known as Catalog of Federal Domestic Assistance Number (CFDA), is a program identification number. The first two digits identify the federal department of agency that administers the program and the last three numbers are assigned by numerical sequence.

State or local government redistributions of federal awards to the **Center**, known as "pass-through awards" should be treated by the **Center** 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.

RECONCILIATION TO FINANCIAL STATEMENTS

During fiscal year ended June 30, 2022, the Federal Emergency Management Agency (FEMA) obligated funds to the **Center** to cover cost incurred in prior year as a response to COVID-19 Public Health Emergency. Accordingly, the information reported in the accompanying Schedule of Expenditures of Federal Awards has being reconciled to the information reported in the **Center's** basic financial statements, as follows:

Expenditures per financial statements	$ 750,000
Costs incurred in prior year approved for reimbursement during current year	127,014
Expenditures per Schedule of Expenditures of Federal Awards	$ 877,014

INDIRECT COST RATE

The **Center** has elected not to use the ten percent of the minimums indirect cost rate allowed under the Uniform Guidance.

LATENESS OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for the fiscal year ended June 30, 2022, could not be submitted in a timely manner. From 2017 to the present, Puerto Rico has suffered four consecutive emergencies caused by nature and health situations: Hurricane Maria, Earthquakes, COVID-19, and Hurricane Fiona. Due to the delays caused by the matters and situations described before, The **Center** was not able to submit the Single Audit Reporting Package related to the fiscal year 2021-2022 on March 31, 2023 (its due date).

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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 Governing Board
Municipal Revenue Collection Center
San Juan 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 and each major fund of the **Municipal Revenue Collection Center ("the Center")** as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the **Center's** basic financial statements and have issued our report thereon dated April 28, 2023. The report on governmental activities was qualified because we were unable to obtain audited data and information about the deferred outflows/inflows, pension plan liability, pension expense, and related note disclosures required for the implementation of GASB Statement No. 73. Also, we were unable to obtain audited data and information about the amounts to be reported as deferred outflows/inflows of resources related to OPEB, the total OPEB liability, and related note disclosure required for the implementation of GASB Statement No. 75.

In addition, the 2021 basic financial statements' net position have been restated to reflect adjustments related to the balances of total pension liability, total postemployment benefits liability, deferred outflows of resources and deferred inflows of resources. Our opinions are not modified with respect of this matter.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Center'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Center's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Center'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.

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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)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item **2022-001** that we consider to be a significant deficiency.

Report on Compliance and other matters

As part of obtaining reasonable assurance about whether the **Center's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 an instance 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 **2022-001**.

Center's Response to Findings

The **Center's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Center's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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)

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 **Center'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 **Center's** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

López-Vega CPA, PSC

LOPEZ VEGA, CPA, PSC

San Juan, Puerto Rico
April 28, 2023

Stamp No. E487010 of the
Puerto Rico Society of Certified
Public Accountants was affixed to
the record copy of this report.

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

To the Governing Board
Municipal Revenue Collection Center
San Juan, Puerto Rico

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **Municipal Revenue Collection Center's** (**the Center**) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have direct and material effect on each of the **Center's** major federal programs for the year ended June 30, 2022. The **Center'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 **Center** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

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

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, statues, regulations, rules, and provisions of contracts or grant agreements applicable to the **Center's** federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **Center'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 **Center'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 **Center'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 **Center'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 **Center'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.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item **2022-002**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

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

Government Auditing Standards requires the auditor to perform limited procedures on the **Center's** response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The **Center's** response was not subject to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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
April 28, 2023

Stamp No. E487011 of the
Puerto Rico Society of Certified
Public Accountants was affixed
to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Unmodified
Tax Amnesty Fund	Unmodified
Special Revenue Fund	Unmodified
Custodial Fund	Unmodified

Internal control over financial reporting:		
Material weakness (es) identified?	☐Yes	☒No
Significant deficiency (ies)?	☒Yes	☐None Reported
Noncompliance material to financial statements noted?	☒Yes	☐No

Federal awards

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

Identification of Major Federal Programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

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

Section II – Financial Statements Findings

Finding Reference 2022-001

Requirement: **Implementation of Requirements Set Forth by GASB Statement No. 73 and GASB Statement No. 75**

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

This finding is similar to prior year finding 2021-001.

Statement of Condition

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

Criteria

GASB Statement No. 73 states the accounting and financial reporting requirements for employers and governmental non-employer contributing entities for pension plans that are not within the scope of GASB Statement No. 68 to comply with the criteria set forth in this Statement. This requires that the **Center** report audited information on a total pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the total pension liability and the reporting of historical pension data as Required Supplementary Information to be audited.

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 total OPEB liability and the reporting of historical data as Required Supplementary Information to be audited.

Section II – Financial Statements Findings (Continued)

Finding Reference 2022-001 (Continued)

Cause of Condition

The **Center's** pension plan administrator has not provided the audited financial and technical information necessary for the properly implement the requirements set forth in of the GASB Statement No. 73 and GASB Statement No. 75 as of June 30, 2022.

Effect of Condition

The **Center's** Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the **Center** for the fiscal year ended June 30, 2022.

Recommendation

We recommend the **Center** maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees' Retirement System Administration, in order to obtain the necessary audited financial and technical information necessary to implement the requirements of the GASB Statements No. 73 and 75.

Questioned Cost

None

View of Responsible Officials and Planned Corrective Actions

The **Center** agrees with the finding and recommendation will be implemented.

Section III – Major Federal Award Program Findings and Questioned Costs

<u>Finding Reference 2022-002</u>

Federal Agency:	**US Department of the Treasury** **Pass-through the Puerto Rico Department of the Treasury** **US Department of Homeland Security** **Pass-through the Puerto Rico Central Office for Recovery, Reconstruction and Resiliency (COR3)**
Federal Program:	**All Federal Programs**
Compliance Requirement:	**Reporting**
Type of Finding:	**Significant Deficiency (SD) and Instance of Noncompliance (NC)**

No similar finding was noted during prior year audit.

Statement of Condition

The Data Collection Form and the Reporting Package for the year ended June 30, 2022 was not timely submitted to the federal government. The Data Collection Form and the Reporting Package must be submitted by the auditee within the earlier of 30-day after the receipt of the auditors' reports or nine (9) months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. No extension from the cognizant or oversight agency was noted.

Criteria

The Uniform Guidance 2 CFR Section 200.512(a) requires the audit to be completed and the reporting package and data collection form to be submitted to the Federal Audit Clearinghouse ("FAC") nine months after the end of the audit period.

Cause of Condition

The **Center** has not been able to provide the necessary information for the preparation of the single audit report on a timely basis in order to complete its reporting requirement for the fiscal year ended on June 30, 2022.

Effect of Condition

The **Center** is not complying with the reporting requirements set forth by federal regulations, which could affect the future of its federal grants awarding process.

Section III – Major Federal Award Program Findings and Questioned Costs (Continued)

Finding Reference 2022-002 (Continued)

Questioned Costs	None
Recommendation	The **Center** should adopt policies and procedures to ensure that the annual audit is performed and submitted in a timely manner.
View of Responsible Officials and Planned Corrective Actions	The **Center** agrees with the finding and recommendation will be implemented.

2022-001	We concur with the finding.	We concur with the auditors' recommendations. The **Center** 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: During the 2022-2023 fiscal year Responsible Persons: CPA Diana M. Claudio Sauri Finance Director
2022-002	We concur with the finding.	We concur with the auditors' recommendations. We will comply with the timely submission of the Data Collection Form and the Reporting Package as required by the Uniform Guidance for Future Federal Grants Awarded. Implementation Date: During the 2022-2023 fiscal year Responsible Persons: CPA Diana M. Claudio Sauri Finance Director

I CERTIFY THAT THE INFORMATION ABOVE IS CORRECT

Mr. Reinaldo Paniagua Látimer

04/28/2023
DATE

Finding Reference: 2021-001

Finding Type: Financial Reporting

Statement of Condition:

The **Center's** pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2020.

Accordingly, the **Center** has not been able to complied with 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 comply with the criteria set forth in the GASB Statement No. 68, "*Accounting and Financial Reporting for 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 **Center's** governmental activities has not been determined.

In addition, the **Center'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. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

Status:

Partially corrected. During the fiscal year ended June 30, 2022, the **Center** recorded and accounted for the pension liability, the OPEB liability and the related deferred inflows/outflows of resources, when applicable. Also, the required Supplementary Information was presented. However, the financial data and information was not subject to audit.