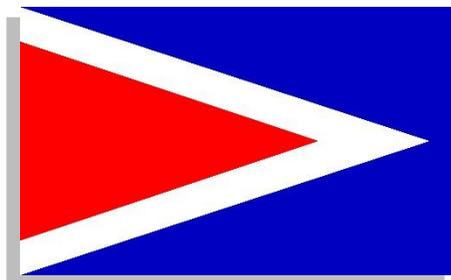


**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO**



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

***AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2019***



Hon. Roberto J. Ramírez Kurtz
Mayor



	PAGES
INDEPENDENT AUDITORS' REPORT	1 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-19
BASIC FINANCIAL STATEMENTS:	
Governmental-Wide Financial Statements:	
Statement of Net Position	20
Statement of Activities	21
Governmental Fund Financial Statements	
Balance Sheets - Governmental Funds	22
Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
ENTERPRISE FUND:	
Balance Sheet – Enterprise Funds	26
Income Statement – Enterprise Funds	27
Statement of Cash Flow – Enterprise Funds	28
NOTES TO THE BASIC FINANCIAL STATEMENTS	29 - 76
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues and Expenditures - General Fund - Budget and Actual	77 - 79
SUPPLEMENTARY INFORMATION REQUIRED BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT	80 - 84
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	85
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	86 - 87
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	88 - 90
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	91 - 93
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	94 - 99
CLIENT CORRECTION ACTION PLAN	100-102

BETANCOURT & CO PSC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying Financial Statements of the Business – Type Activities, each major fund, and the aggregate remaining fund information of the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (The Municipality) as of and for the year ended June 30, 2019, and the related Notes to the Financial Statements. We were engaged to audit the financial statements of the Governmental Activities. These financial statements collectively comprise the Municipality's Basic Financial Statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Principles Generally Accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Summary of Options

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Disclaimer
Business-Type Activities	Unmodified
General Fund	Qualified
Debt Services	Qualified
Commonwealth Legislative Joint Resolutions	Unmodified
FEMA Fund	Unmodified
Other Governmental Funds	Qualified

Basis for Disclaimer of Opinion on Governmental Activities and Note Disclosure Regarding Pensions

The Municipality did not maintain complete, updated and accurate accounting records that supports the - amounts presented as capital assets and its related accumulated depreciation, in the governmental activities. Therefore, we were no able to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying Statement of Net Position for \$71,043,148 net of accumulated depreciation of \$56,207,172 and the amount of depreciation expense stated at \$4,494,231, reported in the accompanying Statement of Activities for the year then ended. The depreciation expenses affect net result of operations reported in the accompanying Statement of Activities for the fiscal year ended June 30, 2019.

The Municipality has not recorded the total pension liability, deferred outflow of resources, deferred inflow of resources and related pension expense required by Statement No. 73 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statement No. 67 and No. 68 in the governmental activities. The amount recorded on the municipality's financial statements were provided from the audited Schedule of Employer Allocation and Schedule of Pensions Amounts by Employer of the Employees Retirement System for the year ended June 30, 2016. These schedules apply for employers under GASB Statement No. 68. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary. The net pension deferred inflow of resources represent the 1% of total liabilities and deferred outflows of resources represent 15% of the total assets as June 30, 2019.

The Municipality has not implemented the requirement of Statement No. 75 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB No. 75) as of for the year ended June 30, 2019. Accounting Principles Generally Accepted in the United States of America require that net other postemployment benefit related liability, deferred outflow of resources and deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 75, as well as the effect of current period changes of the aforementioned amounts that must be recognized in other postemployment benefit expense during the current period. The amounts by which this departure could affect liabilities, deferred outflow of resources, deferred inflow of resources, net position, and other postemployment benefit expense have not been determined.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Disclaimer Opinion

Because of the significance of the matters described in the “Basis for Disclaimer” on Government Activities we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities. Accordingly, we do not express an opinion on the financial position of the governmental activities of the Municipality of Cabo Rojo as of June 30, 2019, or the changes in financial position thereof for the year then ended.

Basis for Qualified Opinions in General and Debt Service Fund

The property taxes by the amount of \$599,661.74 and \$461,769.18 were not collected by the General Fund and Debt Service Fund, respectively within the current period or neither in sixty days after the accounting period. The property taxes were not “measurable and available” within 60 days after June 30, 2019. The “General Fund” and “Debt Services Fund” recorded “Revenue” instead a “Deferred Revenue”. The income is accurate in the “Governmental Funds” for \$1,061,430.92 on June 30, 2019.

Basis for Qualified Opinion in Other Governmental Funds

The “Fiscal Agency and Financial Advisory Authority” (AAFAF) is in process of restructuring all the Puerto Rico’s municipalities cash and debts. We sent confirmation and we contacted them to verify the cash of Municipality of Cabo Rojo. However, they are working and auditing the balances to verify the cash of each municipality of the Commonwealth of Puerto Rico. Because we did not have sufficient evidence available to verify the cash balance of \$853,018 of Municipality of Cabo Rojo retained by AAFAF, we qualified this Funds.

Qualified Opinions in General, Debt Service and Other Governmental Funds

In our opinion, except for the effects of the matters discussed in the “Basis for Qualified Opinions on General, Debt Service, and Other Governmental Funds” paragraphs, the financial statements referred to above present fairly, in all material respect, the respective financial position of the business type activities, the Commonwealth Legislative Joint Resolutions, and FEMA Fund, of the Municipality of Cabo Rojo, as of June 30, 2019, the respective changes in financial position thereof for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

Unmodified Opinion

In our opinion the financial statements referred to above present fairly, in all material respect, the respective financial position of business–type activities, each major fund, (other than General Fund, Debt Services Fund and Other Governmental Funds) and the aggregate remaining fund information of the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (The Municipality) as of June 30, 2019, the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Emphasis of Matter

Going Concern Regarding Commonwealth of Puerto Rico

The accompanying Basic Financial Statements have been prepared assuming that the Municipality will continue as a going concern. The General Fund has incurred in deficits and has experienced further deterioration of its economic condition caused by the Hurricanes Irma and María. As described in Note 17, Management's evaluation of events and conditions are disclosed, and their plans regarding this matter. The Municipality is an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and its components units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balances deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality receives substantial operating funds from the Commonwealth in the form of intergovernmental subsidies. The Commonwealth and its components units are currently under the supervision of a Federal Oversight Board and are implementing fiscals' plans approved by the Board in order to remediate their situation. The financial statements of the Municipality do not include any adjustment that might result from these uncertainties. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information Omitted

The Municipality has omitted the Schedule of the Municipality Proportionate Share of the Net Pension liability, and the schedule of Municipality's contribution to the employee's pension plan information that Accounting Principles Generally Accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basics financial statements in on appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this omitted or missing information.

Required Supplementary Information

Accounting Principles Generally Accepted in the United States of America require that the Management's Discussion on pages 6 - 19 and Analysis, Budgetary Comparison Information on pages 77-79, 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 the Required Supplementary Information in accordance with Auditing Standards Generally Accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the Basic Financial Statements, and other knowledge we obtained during our audit of the Basic Financial Statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**INDEPENDENT AUDITOR'S REPORT
(Continued)**

Required Supplementary Information (Continued)

We were engaged for the purpose of forming opinions on the financial statements as a whole. The accompanying Financial Data Schedules – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 80 through 84, and the Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Award*, on pages 85 through 87, is presented for purposes of additional analysis and is not required part of the basic financial statements. Because of the significance of the matter described above, “Basis for Disclaimer Opinion, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020, on our consideration of the Autonomous Municipality of Cabo Rojo as of the Commonwealth of Puerto Rico 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 to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the Municipality’s internal control over financial reporting and compliance.



BETANCOURT & CO PSC
Canóvanas, Puerto Rico
September 15, 2020

Stamp No. E408883 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report





Within this section of the Municipality of Cabo Rojo's financial statements, **the Municipality** provides a narrative discussion and analysis of the financial activities of **the Municipality** for the fiscal year ended June 30, 2019. **The Municipality's** financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on **the Municipality's primary government and governmental activities**.

Financial Highlights

- The assets of **the Municipality** of Cabo Rojo exceeded deferred inflows and liabilities, at the close of the most recent fiscal year, by (\$28,731,641) (Net position).
- The capital assets, net of depreciation decrease by \$3,144,750 as compared to prior year, mainly due to an increase in accumulated depreciation of municipal properties.
- **The Municipality's** governmental funds reported total ending fund balance of \$3,412,777 this year. This amount represents a decrease of \$15,299 during the current year as compared to the prior year ending fund balance of \$3,428,076. The unassigned fund balance (deficit) of the General Fund as of June 30, 2019 amounted to (\$9,774,797).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to **the Municipality's** basic financial statements. **The Municipality's** basic financial statements include: 1) government-wide financial statements, 2) fund financial statements, 3) enterprise fund statements, and (4) notes to the financial statements. This report also contains other supplementary information.





BASIC FINANCIAL STATEMENT

Government-Wide Financial Statements

The Government-Wide Financial Statements are designed to provide the users of the financial statements with a broad overview of **the Municipality's** finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of **the Municipality's** assets and liabilities, and their difference reported as net position. Fluctuations in net position may serve as a useful indicator on whether the financial position of **the Municipality** is improving or deteriorating.

The Statement of Activities presents information showing how **the Municipality's** net position changed during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the gross and net cost of various activities. This is intended to summarize and simplify the user's analysis of the cost of various governmental services.

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as General Government, Urban and Economic Development, Public Safety, Health and Sanitation, Culture, Recreation and Education, and Public Housing and Welfare.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. **The Municipality**, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of **the Municipality** are classified in the category of governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide Financial Statements. However, unlike the government wide financial statements, government fund financial statements focus on current sources and uses of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of **the Municipality's** near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

GASB Statement No. 34 established that enterprise funds are a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. Accordingly, enterprise funds accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

In compliance with the aforementioned establishment, the operation of the municipal enterprise is presented as a business-type activity in this financial statement report. The financial information is included, discreetly, in an enterprise fund statement of net position, an enterprise fund statement of activities and as a separate column of **the Municipality** Government Wide Financial Statements at June 30, 2019.



Business-type Activities

Business-type activities charges fees to customers to finance the costs of their activities. The activities of the Teatro Excelsior and Nestor Nazario Gym are included here.

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 fund financial statements.

Required Supplementary Information

The Basic Financial Statements are followed by a section of Required Supplementary Information. This section includes a Budgetary Comparison Schedule Between Final Budgeted Amounts and Actual Amounts for the General Fund.

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Position - The Condensed Statement of Net Position of **the Municipality** as of June 30, 2019 and 2018 is presented below:

As noted above, **the Municipality** governmental activity total assets decreased by \$4,626,342 while the total liabilities increased by \$929,207 mainly due by the decrease of accumulated depreciation of capital assets and the increase of current liabilities. As a result, the net position decreased by \$5,555,549.

Net position may serve over time as a useful indicator of a government's financial position. **The Municipality's** net position is weakened by the amount of (\$28,731,671) as of June 30, 2019, as compared to the net position of (\$23,176,122) of the previous fiscal year.

In the business-type activities the total assets increased by \$31,951 while the total liabilities decrease by \$9. As a result, the net position increase by \$31,960. The business-type activities net position is \$84,536 as of June 30, 2019, as compare to the net position of \$52,576 of the previous year.

Table 1

	Governmental Activities		Business-type Activities		Total Primary Activities	
	2019	2018 As restated	2019	2018 As restated	2019	2018 As restated
Assets						
Current and other assets	\$ 16,556,465	18,038,057	90,360	56,205	16,646,825	18,094,262
Capital assets, net	71,043,148	74,187,898	4,179	6,383	71,047,327	74,194,281
Total Assets	87,599,613	92,225,955	94,539	62,588	87,694,152	92,288,543
Deferred Outflows of Resources	15,037,804	15,037,804	-	-	15,037,804	15,037,804
Liabilities						
Long term liabilities	117,072,357	115,120,540	-	-	117,072,357	115,120,540
Other liabilities	12,929,237	13,951,847	10,003	10,012	12,939,240	13,961,859
Total Liabilities	130,001,594	129,072,387	10,003	10,012	130,011,597	129,082,399
Deferred Inflows of Resources	1,367,494	1,367,494	-	-	1,367,494	1,367,494
Net Position						
Invested in capital assets	82,176,827	54,141,980	-	-	82,176,827	54,141,980
Restricted	3,852,304	9,407,853	-	-	3,852,304	9,407,853
Unrestricted	(114,760,802)	(86,725,955)	84,536	52,576	(114,676,266)	(86,673,379)
Total Net Position	\$(28,731,671)	(23,176,122)	84,536	52,576	(28,647,135)	(23,123,546)



The largest portion of **the Municipality's** net position represents the investment in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets. **The Municipality** uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although **the Municipality's** investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The amounts restricted for debt service represent another portion of the net position, and these are resources subject to external restrictions for the purposes explained above. An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others.

Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, **the Municipality** cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

Activities

The condensed statement of activities of **the Municipality** for the years ended June 30, 2019 and 2018 is presented below. As noted therein, governmental activities net position decreased by \$5,555,549, and the business-type activities increase by \$31,960.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2019 were for activities related to General Government \$17,072,101, Urban and Economic Development \$3,025,946, and Health and Sanitation \$2,252,237.

This part was intentionally left blank



Table 2

	Governmental Activities		Business-type Activities		Total Primary Activities	
	2019	2018 As restated	2019	2018 As restated	2019	2018 As restated
Program Revenues						
Fees, fines and charges for services	\$ 448,794	321,473	446,393	355,837	895,187	677,310
Operating grants and contributions	3,695,998	7,517,536	-	-	3,695,998	7,517,536
Capital grants and contributions	1,215,129	48,779	-	-	1,215,129	48,779
General Revenues						
Property taxes	11,284,553	12,923,216	-	-	11,284,553	12,923,216
Municipal license taxes	2,045,254	2,782,742	-	-	2,045,254	2,782,742
Construction excise taxes	646,893	245,587	-	-	646,893	245,587
Sale tax	2,138,729	1,738,371	-	-	2,138,729	1,738,371
Grants & contributions	1,115,432	2,547,346	-	-	1,115,432	2,547,346
Unrestricted interest on deposit	72,549	149,101	-	-	72,549	149,101
Special items	17,933	-	-	-	17,933	-
Miscellaneous	602,475	1,111,847	-	-	602,475	1,111,847
Total Revenues	23,283,739	29,385,998	446,393	355,837	23,730,132	29,741,835
Expenses						
General Government	17,072,101	51,144,417	-	-	17,072,101	51,144,417
Urban and Economic Development	3,025,946	9,494,394	-	-	3,025,946	9,494,394
Public Safety	1,941,756	8,141,481	-	-	1,941,756	8,141,481
Health and Sanitation	2,252,237	5,976,763	-	-	2,252,237	5,976,763
Culture, Recreation and Education	1,237,743	4,982,118	414,433	334,695	1,652,176	5,316,813
Public Housing and Welfare	1,704,170	6,685,863	-	-	1,704,170	6,685,863
Interest on long-term obligations	1,605,335	1,707,918	-	-	1,605,335	1,707,918
Total Expenses	28,839,288	88,132,954	414,433	334,695	29,253,721	88,467,649
Change in Net Position	(5,555,549)	(58,746,956)	31,960	21,142	(5,523,589)	(58,725,814)
Net Position at beginning of fiscal year	(23,176,122)	35,570,834	52,576	31,434	(23,123,546)	35,602,268
Net Position at end of year	\$(28,731,671)	(23,176,122)	84,536	52,576	(28,647,135)	(23,123,546)

Governmental Activities of **the Municipality** reported a negative change in net position of \$5,555,549, a decrease of 91% with respect to prior year. This decrease resulted from the net effect of a decrease of 21% in revenue and a 67% in expenses.

Business-type Activities of **the Municipality** reported a positive change in net position of \$31,960, an increase of 51% with respect to prior year. This decrease resulted from the net effect of an increase of 39% in revenue and a 38% in expenses.



The **Figure 1** and **Figure 2** below illustrate total primary activities revenue distribution in fiscal year ended June 30, 2019 and a comparison between 2019 and 2018:

Figure 1

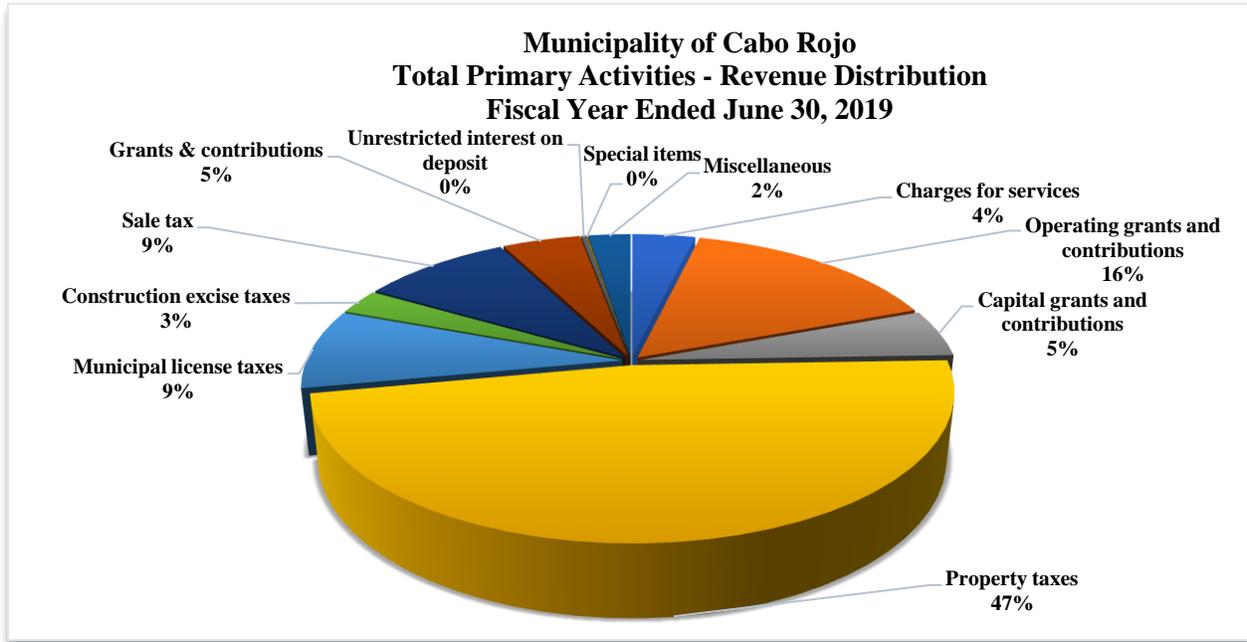
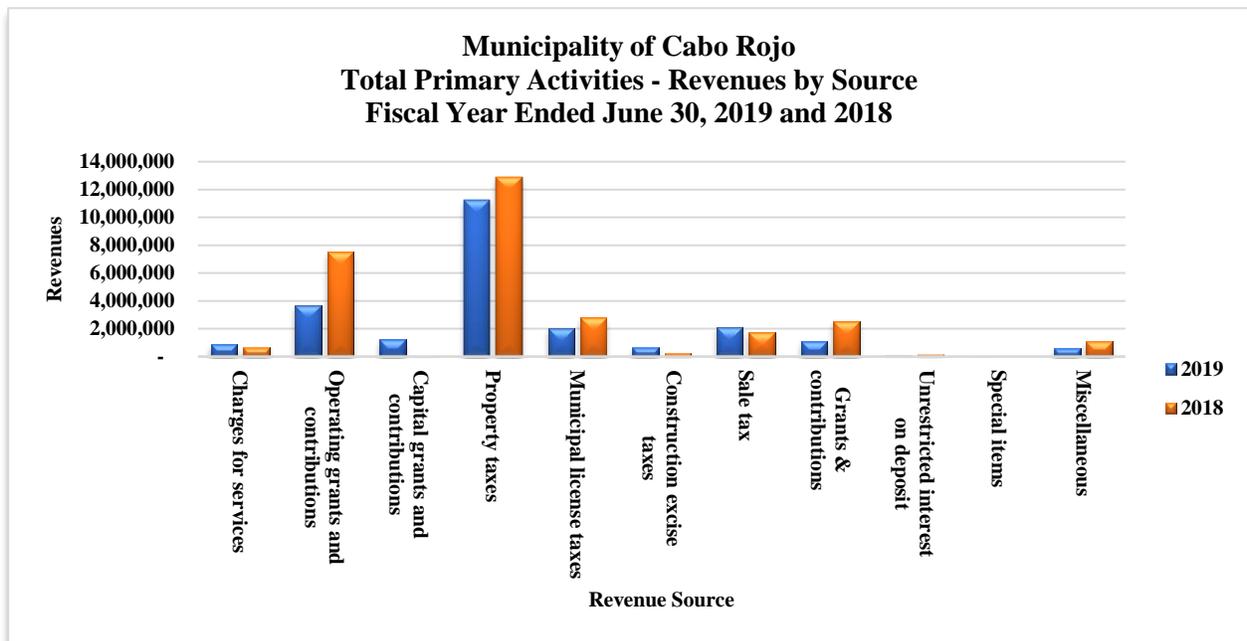


Figure 2





The following **Figure 3** and **Figure 4** illustrate total primary activities expense distribution in fiscal year ended June 30, 2019 and comparison between 2019 and 2018.

Figure 3

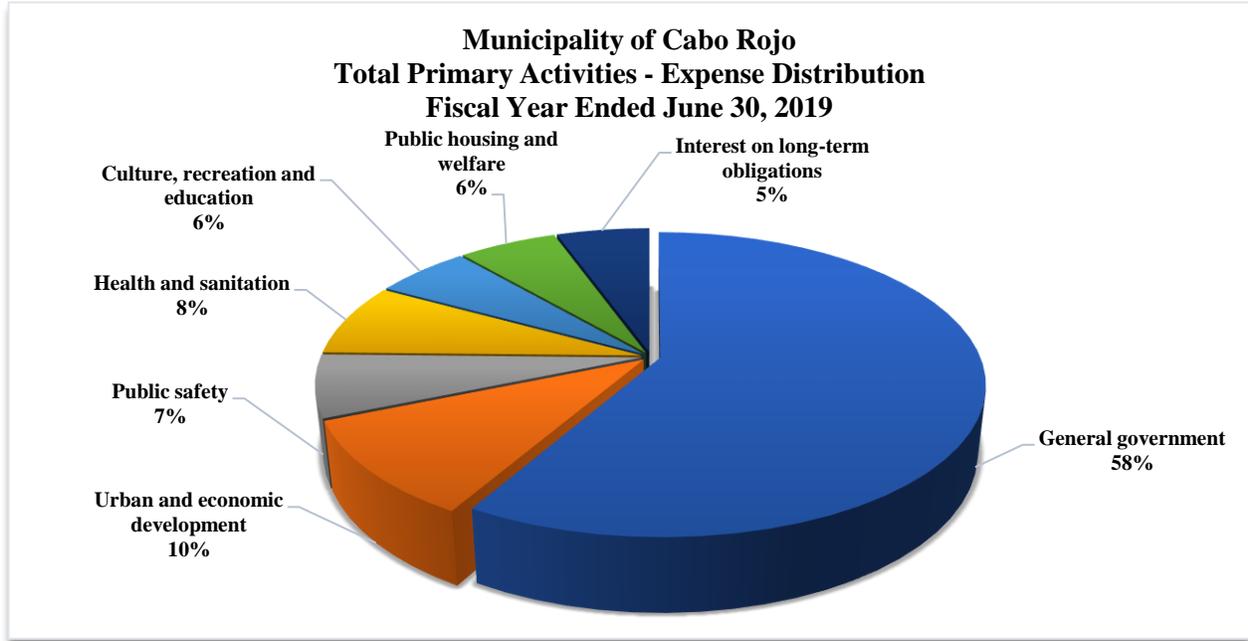
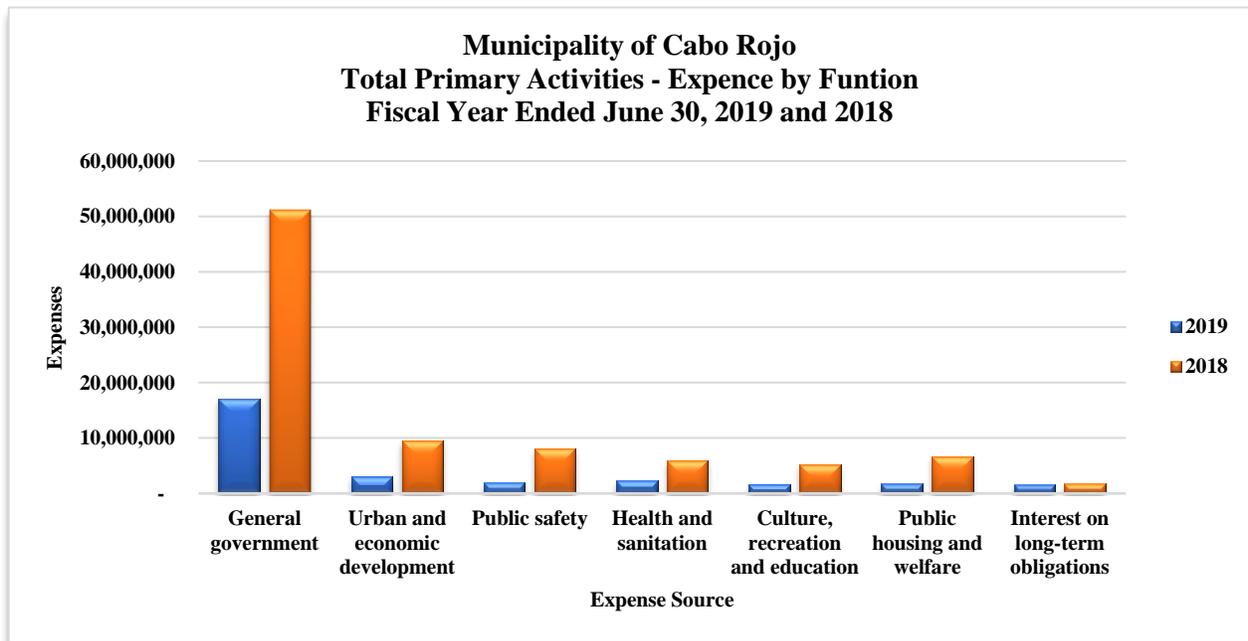


Figure 4





Revenues, business-type activities - revenues of the business-type activity of Teatro Excelsior in the fiscal year 2018-2019 is \$315,219 and consists mainly from admissions and concession to the general public attending to the theater. The revenues were comparable to revenues of fiscal year 2017-2018. Revenues increased 25%.

The revenue of the business-type activity of Nestor Nazario Gym in the fiscal year 2018-2019 is \$131,174 and consists mainly from entrance fees. The revenues were comparable to revenues of fiscal year 2017-2018. Revenues increased 26%.

Total revenue for fiscal year 2018-2019 of business-type activity is \$446,393.

Expenses, business-type activities - expenses of the business-type activity of Teatro Excelsior in the fiscal year 2018-2019 is \$285,697 and consists mainly from utilities, advertising, food for sale, repairs and maintenance and other operational expenses, as well as certain nonoperating expenses. The expense was comparable to expense of fiscal year 2017-2018. Expenses increased 25%.

Expenses of the business-type activity of Nestor Nazario Gym in the fiscal year 2018-2019 is \$128,736 and consists of utilities, repairs and maintenance and other operational expenses, as well as certain nonoperating expenses. The expense was comparable to expense of fiscal year 2017-2018. Expense increased 21%.

Total expense for fiscal year 2018-2019 of business-type activity is \$414,433.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of **the Municipality's** governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing **the Municipality's** financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, **the Municipality's** governmental funds reported ending fund balances of \$3,412,777, which represents a decrease of \$15,299 thousands in comparison with prior fiscal year balance of \$3,428,076. For the end of fiscal year 2019 the Municipality of Cabo Rojo presents an unassigned fund balance of (\$9,774,797). The remainder of the fund balance is classified as restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects \$175,405; b) debt service \$1,374,695 and c) other specified purposes \$11,637,474.

This part was intentionally left blank



Table 3		
	2019	2018
Balance Sheet		
Assets		
Total Assets – Major Funds	\$ 19,936,977	20,204,952
Total Assets – Other Funds	3,135,687	4,552,144
Combined Total Assets	23,072,664	24,757,096
Liabilities		
Total Liabilities – Major Funds	19,129,616	20,545,009
Total Liabilities – Other Funds	530,271	784,011
Combined Total Liabilities	19,659,887	21,329,020
Fund Balances		
Restricted– Major Funds	10,582,158	6,432,026
Restricted– Other Funds	2,605,416	3,768,133
Unassigned	(9,774,797)	(6,772,083)
Combined Total Fund Balances	3,412,777	3,428,076
Total Liabilities and Fund Balances	\$ 23,072,664	24,757,096

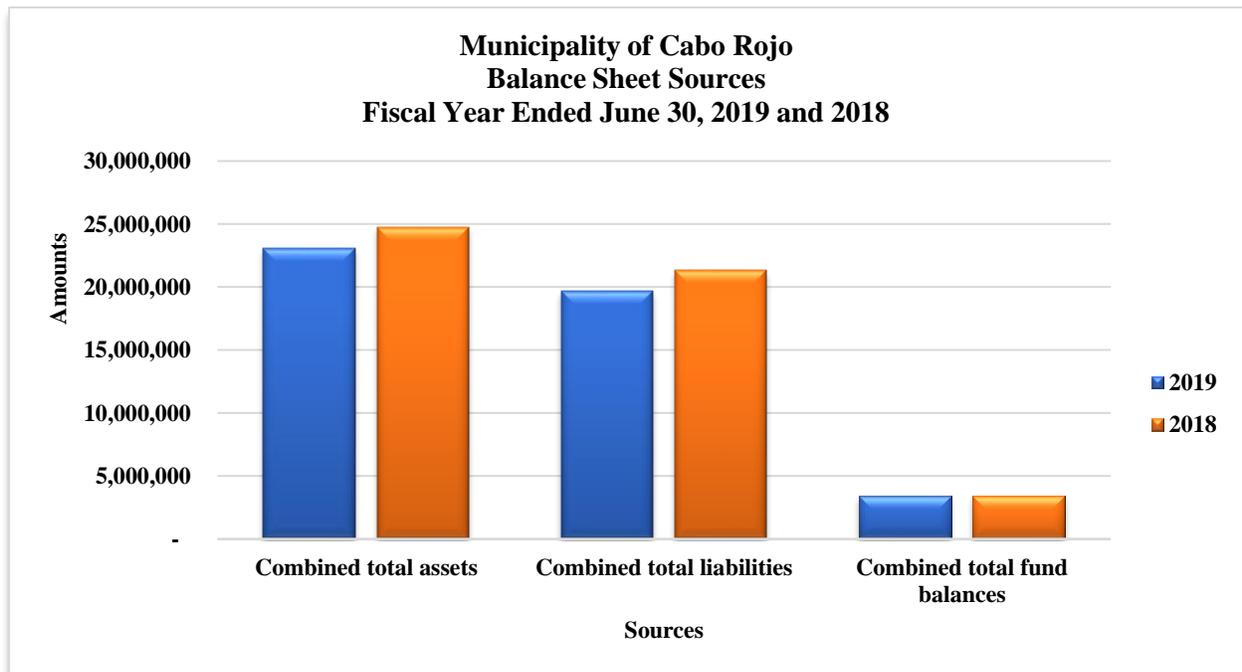
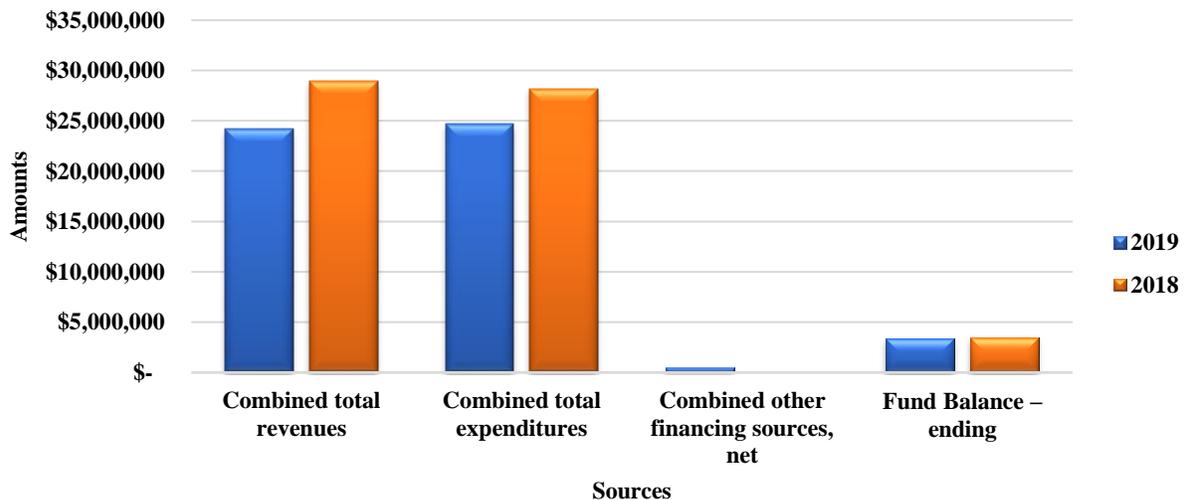




Table 4

	2019	2018
Changes in Fund Balances		
Revenues		
Total Revenues – Major Funds	\$ 21,300,056	26,843,032
Total Revenues – Other Funds	2,875,658	2,135,704
Combined Total Revenues	24,175,714	28,978,736
Expenditures		
Total Expenditures – Major Funds	22,177,371	26,347,027
Total Expenditures – Other Funds	2,496,533	1,824,111
Combined Total Expenditures	24,673,904	28,171,138
Other Financing Sources (Uses)		
Other Financing Sources – Major Funds	2,024,733	104,344
Other Financing Uses – Other Funds	(1,541,842)	(104,344)
Combined Other Financing Sources, Net	482,891	-
Net Changes in Fund Balance	(15,299)	807,598
Fund Balance – Beginning, as Restated	3,428,076	2,620,478
Fund Balance – Ending	\$ 3,412,777	3,428,076

Municipality of Cabo Rojo
Changes in Fund Balance Sources
Fiscal Year Ended June 30, 2019 and 2018





Capital Assets

The Municipality's investment in capital assets for its governmental activities as of June 30, 2019 amounted to approximately \$82,176,828 (net of related debt). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2019 was \$1,349,480 while depreciation charges amounted to \$4,494,230 for the fiscal year. The ending balance reported on capital assets amounted to \$127,250,320 by the end of year, with depreciation amounting to \$56,207,172.

Table 5

Cost Basis of Capital Assets and the Accumulated Depreciation and Amortization As of June 30, 2019		
Description	Governmental Activities	
	Cost Basis of Capital Assets	Accumulated Depreciation
Non-depreciable Capital Assets		
Land	\$ -	-
Construction in progress	-	-
Depreciable Capital Assets		
Land Improvements	543,512	490,532
Buildings, Structures and Improvements	42,372	1,412,554
Infrastructure	593,073	1,853,211
Machinery and Equipment	96,679	328,496
Licensed Vehicles	73,845	409,438
Total	\$ 1,349,481	4,494,231

Long-Term Debts

At June 30, 2019, the Municipality had total of \$119,590,532 in general obligations and others outstanding debts, as shown in Table 6. Of this amount, \$27,703,891 comprises debt backed by the full faith and credit of the government and \$91,886,641 is other obligations.

Table 6	
Long Term Debts	Amount
General Obligations Bonds and Notes	\$ 27,703,891
Others	91,886,641
Total Long-Term Debts	\$ 119,590,532

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.



Economic Factors and Next Year's Budgets and Rates

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 14 members, exercises the legislative power. As previously discussed in this report, the Municipality provides a full range of services to its community in general. **The Municipality's** principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants. **The Municipality** has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

Impact of COVID-19 on the Commonwealth's and Municipal Operations

As more fully described in **Note W**, Coronavirus pandemic disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. As part of various measures to contain the spread in Puerto Rico, on March 15, 2020 the Governor of the Commonwealth of Puerto Rico issued the Executive Order OE-2020-023 which, among other things, ordered schools, non-essential businesses, nonprofit entities and Commonwealth and Municipal governmental organizations to close. These orders were applicable until March 30, 2020, but could be extended by the Governor.

As a result of these executive order measure **the Municipality** expected a negative impact on its operating results on next fiscal year and thereafter. Most significant revenues including property taxes, municipal license taxes and sales and use taxes are expected to suffer reductions, which can affect **the Municipality's** ability to perform public services. Businesses, the Commonwealth and Municipal governments' and people of Puerto Rico are expecting financial assistance in order to alleviate the economic impact **the Municipality's** future financial condition or results of operations is undeterminable.

Puerto Rico Fiscal Agency and Financial Advisory Authority – Act No. 2 of 2017

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); 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; to provide that it shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision; to provide that the Executive Director of the Authority shall be the legal successor of the President of the Government Development Bank of Puerto Rico (GDB) in every Board, Committee, Commission or Council; to repeal Chapter 6 of Act No. 21-2016, as amended, and the Puerto Rico Fiscal Oversight and Recovery Organic Act, Act No. 208-2015; and for other related purposes.

The FAFAA will act as fiscal agent, financial advisor and reporting agent of all entities of the Government of Puerto Rico. It shall be the governmental entity responsible for the collaboration, communication and cooperation between the Government of Puerto Rico and the Fiscal Oversight Board created under PROMESA. To such effect, the FAFAA is empowered to collaborate in conjunction with the Governor of Puerto Rico and his representatives in the creation, execution, supervision and oversight of any Fiscal Plan and any Budget as defined by the terms of PROMESA. In addition, the Authority shall be the government entity charged with supervising, executing and administering the Fiscal Plan approved and certified in accordance with PROMESA and shall ensure that all the entities of the Government of Puerto Rico comply with the approved Fiscal Plan.

In addition, 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. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.



The Authority shall be governed by Board of Directors composed of five (5) members, including the Executive Director of the FAFAA, appointed by the Governor, one (1) representative of the Senate of the Puerto Rico, and one (1) representative of the House of Representatives of Puerto Rico, who shall be designated by the Presiding Officer of each Legislative House. The remaining two members shall be appointed by the Governor.

Puerto Rico Financial Emergency and Fiscal Responsibility Act – Act No. 5 of 2017

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 “Puerto Rico Financial Emergency and Fiscal Responsibility Act” to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and he creditors of the Government of Puerto Rico and its instrumentalities. This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as “essential services”, in accordance with the Constitution of Puerto Rico.

This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the Moratorium Act”) and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation, thus negating the timely payment of the Government’s obligations and the initiation of a voluntary negotiation process with the creditors of the Commonwealth and its instrumentalities. It also suspends or cancels, or both, all special appropriations not budgeted in the fiscal year 2016-17 that may have been multi-year authorizations from prior fiscal years. The Emergency Period will begin with the effective date of this Act and end in May 1, 2017, and may be extended by the Governor pursuant to an executive order for one additional period of three (3) months.

During the Emergency Period declared by this Act, the Governor has the power to designate services provided by the Commonwealth and its instrumentalities as essential services or services that are not essential services and utilize available resources to provide for the satisfaction of obligations of the Commonwealth and its instrumentalities, while also recognizing the need to provide for the services essential to the health, safety and welfare of the residents of Puerto Rico. The Governor shall pay debt service to the extent a) possible after all essential services of the Commonwealth have been provided for; or b) ordered to do so by the Oversight Board or any board created under federal law.

In addition, the Governor may issue executive orders requiring the use of available resources to be deposited in a lockbox account under the sole control of the FAFAA to pay for essential services as he deems necessary to protect the health, safety and welfare of the residents of Puerto Rico; and he may take all actions deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB’s liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.



If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services.

If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filing was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue.

Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation (“COFINA”), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority (“HTA”) and the Government of Puerto Rico Employees Retirement System (“ERS”).

Request for Information

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of **the Municipality’s** finances and to demonstrate **the Municipality’s** accountability. If you have questions about this report or need any additional information, contact the Municipal Director of Finance, Attn: Carmen D. Feliciano, at P.O. Box 1308, Cabo Rojo, PR 00623 or call (787) 851-1025.

This part was intentionally left blank

BASIC FINANCIAL STATEMENT



	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash in commercial banks	\$ 1,773,154	88,681	1,861,835
Account receivable, net:			
Property taxes	2,639,525	-	2,639,525
Prepaid taxes	-	250	250
Grants and contributions	1,378,841	129	1,378,970
Restricted Assets:			
Cash and cash equivalents	5,208,008	-	5,208,008
Cash and cash equivalents with fiscal agent	5,556,937	-	5,556,937
Inventory	-	1,299	1,299
Capital Assets:			
Non-depreciable	12,342,944	-	12,342,944
Depreciable, net accumulated depreciation of \$56,207,172	58,700,204	4,179	58,704,383
Total Assets	87,599,613	94,539	87,694,152
DEFERRED OUTFLOW OF RESOURCES			
Government-mandated nonexchange transaction	15,037,804	-	15,037,804
Total Deferred Outflows of Resources	15,037,804	-	15,037,804
LIABILITIES			
Account payable and accrued liabilities	6,131,944	10,003	6,141,947
Due to other agencies	2,497,417	-	2,497,417
Unearned revenue	1,775,622	-	1,775,622
Accrued interest	6,079	-	6,079
Non-current liabilities:			
Due within one year	2,518,175	-	2,518,175
Due after one year	117,072,357	-	117,072,357
Total Liabilities	130,001,594	10,003	130,011,597
DEFERRED INFLOW OF RESOURCES			
Government-mandated nonexchange transaction	1,367,494	-	1,367,494
Total Deferred Inflows of Resources	1,367,494	-	1,367,494
NET POSITION			
Net invest in capital assets	82,176,827	-	82,176,827
Capital purposes	175,405	-	175,405
Restricted for:			
Debt service	1,374,695	-	1,374,695
Other specified purposes	2,302,204	-	2,302,204
Unrestricted (deficit)	(114,760,802)	84,536	(114,676,266)
Total Net Position (Deficit)	\$ (28,731,671)	84,536	(28,647,135)

See notes to financial statements.



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2019

Functions/Program	Expenses	Charges for Services	Program Revenues		Net (Expense) and Revenue in Net Position	Net (Expense) and Revenue in Net Position	Total
			Operating Grant and Contributions	Capital Grant and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government	\$ 17,072,101	146,311	2,590,776	-	(14,335,014)		(14,335,014)
Urban and Economic Development	3,025,946	142,039	61,251	193,956	(2,628,700)		(2,628,700)
Public Safety	1,941,756	1,326	127,356	29,900	(1,783,174)		(1,783,174)
Health and Sanitation	2,252,237	142,114	-	-	(2,110,123)		(2,110,123)
Culture, Recreation and Education	1,237,743	17,004	288,135	-	(932,604)		(932,604)
Public Housing and Welfare	1,704,170	-	628,480	991,273	(84,417)		(84,417)
Interest on long-term obligations	1,605,335	-	-	-	(1,605,335)		(1,605,335)
Total Governmental Activities	28,839,288	448,794	3,695,998	1,215,129	(23,479,367)		(23,479,367)
Business-Type Activities							
Cabo Rojo Enterprise	414,433	309,716	-	-	-	(104,717)	(104,717)
Total Activities	414,433	309,716	-	-	-	(104,717)	(104,717)
General Revenues							
Taxes:							
Property taxes					11,284,553	-	11,284,553
Municipal license taxes					2,045,254	-	2,045,254
Construction					646,893	-	646,893
Sales taxes					2,138,729	-	2,138,729
Grant and contributions, not restricted to specified programs					1,115,432	-	1,115,432
Unrestricted interest on deposit					72,549	-	72,549
Special items					17,933	-	17,933
Miscellaneous					602,475	136,677	739,152
Total General Revenues					17,923,818	136,677	18,060,495
Net Change in Position					(5,555,549)	31,960	(5,523,589)
Net Position, beginning of year					(23,176,122)	52,576	(23,123,546)
Net Position, end of year					\$ (28,731,671)	84,536	(28,647,135)

See notes to financial statements.



	Major Governmental Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Hurricane María	Other Governmental Funds	
ASSETS						
Cash in commercial bank	\$ 1,773,154	-	-	-	-	1,773,154
Account receivable, net of allowance of uncollectable accounts:						
<i>Property tax</i>	599,662	461,796	-	-	-	1,061,458
Grant and contributions	81,086	-	-	962,056	335,699	1,378,841
Due from other fund	3,039,995	-	4,279,781	-	774,490	8,094,266
Restricted assets:						
Cash and cash equivalents	3,607,514	-	275,493	152,521	1,172,480	5,208,008
Cash in fiscal agent	-	4,703,919	-	-	853,018	5,556,937
Total Assets	9,101,411	5,165,715	4,555,274	1,114,577	3,135,687	23,072,664
LIABILITIES						
Accounts payable and accrued liabilities	4,811,989	763,616	143,444	264,000	148,895	6,131,944
Intergovernmental payable	2,497,417	-	-	-	-	2,497,417
Due to other funds	5,054,271	1,837,404	-	850,577	352,014	8,094,266
Unearned revenue	1,716,898	-	-	-	29,362	1,746,260
Matured bonds due and payable	-	1,190,000	-	-	-	1,190,000
Total Liabilities	14,080,575	3,791,020	143,444	1,114,577	530,271	19,659,887
FUND BALANCE						
Unrestricted	(9,774,797)	-	-	-	-	(9,774,797)
Assigned to:						
<i>Capital projects</i>	-	-	175,405	-	-	175,405
Restricted to:						
<i>Debt service</i>	-	1,374,695	-	-	-	1,374,695
<i>Other purposes</i>	4,795,633	-	4,236,425	-	2,605,416	11,637,474
Total Fund Balance	(4,979,164)	1,374,695	4,411,830	-	2,605,416	3,412,777
Total Liabilities and Fund Balances	\$ 9,101,411	5,165,715	4,555,274	1,114,577	3,135,687	23,072,664

See notes to financial statements.



TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 3,412,777
Amounts reported for governmental activities in the statement of net position are different because:	
<ul style="list-style-type: none"> ● Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 	71,043,148
<ul style="list-style-type: none"> ● Deferred (unavailable) Outflows of Resources in Governmental Activities are not recorded in the funds in the current period. 	15,037,804
<ul style="list-style-type: none"> ● Deferred (unavailable) Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds. 	(1,396,856)
<ul style="list-style-type: none"> ● Intergovernmental receivables related to Property Tax that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. 	1,578,067
The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:	
<ul style="list-style-type: none"> ● Accrued employees' Christmas bonus 	(145,465)
<ul style="list-style-type: none"> ● Bonds payable 	(26,513,891)
<ul style="list-style-type: none"> ● Notes payable 	(4,409,207)
<ul style="list-style-type: none"> ● Net Pension Liability 	(71,449,669)
<ul style="list-style-type: none"> ● Solid waste landfill closure and post closure care cost 	(11,875,000)
<ul style="list-style-type: none"> ● Compensated absences 	(2,758,047)
<ul style="list-style-type: none"> ● Cargo Pay Go 	(1,255,332)
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (28,731,671)

See notes to financial statements.



COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN
FUND BALANCES GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2019

	Major Governmental Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Hurricane María	Other Governmental Funds	
REVENUES						
Taxes:						
<i>Sale tax</i>	\$ 1,803,991	334,738	-	-	-	2,138,729
<i>Property tax</i>	7,507,712	4,608,213	-	-	-	12,115,925
<i>Municipal license tax</i>	2,045,254	-	-	-	-	2,045,254
<i>Construction excise tax</i>	646,893	-	-	-	-	646,893
Charges for services	432,906	-	-	-	15,888	448,794
Grant and contributions	1,010,965	-	39,228	2,213,226	2,823,743	6,087,162
Interest on deposits	2,333	34,371	-	-	35,845	72,549
Special items	17,933	-	-	-	-	17,933
Miscellaneous	602,293	-	-	-	182	602,475
Total Revenues	14,070,280	4,977,322	39,228	2,213,226	2,875,658	24,175,714
EXPENDITURES						
Current:						
<i>General Government</i>	10,588,530	-	-	2,213,226	377,550	13,179,306
<i>Urban and Economic Development</i>	2,498,747	-	60,969	-	272	2,559,988
<i>Public Safety</i>	1,422,649	-	-	-	127,356	1,550,005
<i>Health and Sanitation</i>	869,208	-	-	-	-	869,208
<i>Culture, Recreation and Education</i>	707,847	-	-	-	288,135	995,982
<i>Public Housing and Welfare</i>	697,052	-	-	-	677,547	1,374,599
Debt Service:						
<i>Principal</i>	-	1,190,000	-	-	-	1,190,000
<i>Interest</i>	-	1,605,335	-	-	-	1,605,335
Capital Outlays	134,352	-	189,456	-	1,025,673	1,349,481
Total Expenditures	16,918,385	2,795,335	250,425	2,213,226	2,496,533	24,673,904
Excess (deficiency) of revenues over (under) expenditures	(2,848,105)	2,181,987	(211,197)	-	379,125	(498,190)
Other financing sources (uses):						
Transfer-In from other fund	1,596,317	-	-	-	-	1,596,317
Transfer-Out to other fund	(1,208,145)	(354,977)	-	-	(33,195)	(1,596,317)
Proceed from:						
<i>Issuance of bonds and loans</i>	5,000,000	-	-	-	-	5,000,000
<i>LTD restructuring process</i>	(1,458,320)	1,218,396	-	-	239,924	-
<i>LTD deposit setoff</i>	(81,134)	(2,687,404)	-	-	(1,748,571)	(4,517,109)
Total Other Financial Sources (uses)	3,848,718	(1,823,985)	-	-	(1,541,842)	482,891
Net change in fund balance	1,000,613	358,002	(211,197)	-	(1,162,717)	(15,299)
Fund balance (deficit) at beginning of fiscal year	(5,979,777)	1,016,693	4,623,027	-	3,768,133	3,428,076
Fund balance (deficit) at end of fiscal year	\$(4,979,164)	1,374,695	4,411,830	-	2,605,416	3,412,777

See notes to financial statements.



NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ (15,299)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital assets outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization expense.	(3,144,750)
Repayment of principal of long-term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net assets.	1,320,876
The landfill closure and post closures care cost has been adjusted in accordance with amortization schedule prepared recently. This adjustment does not affect expenditures in the governmental funds.	(1,732,280)
Some revenues recorded in the statement of activities do not provide current financial resources; therefore, they are not presented in governmental funds statements. This revenue is measurable but not available at end of fiscal year.	(891,975)
Increase in debt related to Retirement Plan Systems represent expenses for the statement of activities but do not require the use of current financial resources, therefore, they are not presented has expenditures in the statement of governmental funds.	(1,255,332)
Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Decrease in Christmas bonus payable, compensated absences, and intergovernmental payable.	163,211
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$(5,555,549)

See notes to financial statements.



	Teatro Excelsior	Gymnasium Nestor Nazario	Total Enterprise Funds
ASSETS			
Current Assets			
Checking accounts	\$ 82,245	6,436	88,681
Inventory	1,248	52	1,300
Account receivable	-	129	129
Prepaid taxes	52	198	250
Total Current Assets	83,545	6,815	90,360
Property and Equipment			
Equipment	9,824	1,200	11,024
Introductory video	5,065	-	5,065
Amort-introductory video	(5,065)	-	(5,065)
Accum. depreciation - equipment	(6,385)	(460)	(6,845)
Total Property and Equipment	3,439	740	4,179
TOTAL ASSETS	86,984	7,555	94,539
LIABILITIES AND NET POSITION			
Current Liabilities			
Accrued Liabilities	6,007	3,996	10,003
Total Current Liabilities	6,007	3,996	10,003
TOTAL LIABILITIES	6,007	3,996	10,003
Net Position			
Unrestricted	80,977	3,559	84,536
Total Net Position	80,977	3,559	84,536
TOTAL LIABILITIES AND NET POSITION	\$ 86,984	7,555	94,539

See notes to financial statements.



	Teatro Excelsior	Gymnasium Nestor Nazario	Total Enterprise Funds
REVENUES			
Admissions and concession income	\$ 111,873	-	111,873
Concession stand income	174,309	-	174,309
Advertising income	23,534	-	23,534
Professional fees	-	126,480	126,480
Interest	25	-	25
Disaster income	5,478	4,694	10,172
Total Revenues	315,219	131,174	446,393
COST OF SALES			
Initial inventory	1,971	403	2,374
Concessions-cost	40,725	6,605	47,330
Final inventory	(1,248)	(51)	(1,299)
Total Cost of Sales	41,448	6,957	48,405
Gross Profit	273,771	124,217	397,988
EXPENSES			
Advertising expenses	5,040	235	5,275
Auto expenses	1,437	236	1,673
Bank charges	284	126	410
Commissions and fees expenses	2,104	2,000	4,104
Depreciation expenses	1,965	240	2,205
Insurance expenses	4,048	5,092	9,140
Rent equipment expenses	917	-	917
Professional services - movies	81,248	-	81,248
Legal & professional expenses	5,004	8,899	13,903
Licenses & patents expenses	91	155	246
Maintenance & repairs expenses	6,744	20,003	26,747
Meals & entertainment expenses	67	-	67
Salaries expenses	94,272	74,616	168,888
Payroll taxes and related	10,832	8,990	19,822
Office expenses	3,419	1,187	4,606
Utensils and others	4,447	-	4,447
Total Expenses	221,919	121,779	343,698
Change in Net Position	51,852	2,438	54,290
Net Position, beginning of fiscal year	51,455	1,121	52,576
Municipality of Cabo Rojo-Distribution	(22,330)	-	(22,330)
Net Position, end of fiscal year	\$ 80,977	3,559	84,536

See notes to financial statements.



	Teatro Excelsior	Gymnasium Nestor Nazario	Total Cash Flow
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 309,741	126,351	436,092
Cash from government incentive	5,478	4,694	10,172
Cash paid to suppliers	(43,565)	(6,605)	(50,170)
Cash paid to employees	(94,272)	(74,616)	(168,888)
Cash paid to professional services and movies rent	(81,248)	(8,899)	(90,147)
Cash paid to other operating expenses	(42,330)	(37,502)	(79,832)
Net Cash Provided by Operating Activities	53,804	3,423	57,227
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Cash used in the purchase of equipment	-	-	-
Net cash in investment activities	-	-	-
Cash Flows from Financial Activities	-	-	-
Decrease in Municipality of Cabo Rojo interfund	(22,331)	-	(22,331)
Net Cash used in Financing	(22,331)	-	(22,331)
Net (increase) decrease in cash	31,473	3,423	34,896
Cash at the beginning of the period	50,772	3,013	53,785
Cash at the end of the period	\$ 82,245	6,436	88,681

This part was intentionally left blank



1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

(a) Organization

The Municipality of Cabo Rojo (“the Municipality”) was constituted in 1771 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*.

The Commonwealth’s Constitution provides for the separation of powers of the executive, legislative and judicial branches of the Commonwealth and the municipalities. However, **the Municipality’s** governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of **the Municipality**. The legislative power of **the Municipality** is exercised by the Municipal Legislature, whose members are also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over **the Municipality**.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to Public Housing and Welfare, Public Safety, Health and Sanitation, Culture, Recreation and Education, Urban and Economic Development, and many other fiscal, general and administrative services.

(b) Reporting Model

The accompanying Basic Financial Statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of **the Municipality**, as of June 30, 2019, the respective change in financial position of the governmental activities, each major fund, and the aggregate remaining fund information in conformity with accounting principles generally accepted in the United State of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

According to the financial reporting model established by GASB, the required Basic Financial Statements presentation applicable to **the Municipality** is composed of the following elements: (1) Government-Wide Financial Statements (GWFS), (2) Governmental Fund Financial Statements (GFFS), (3) Notes to Basic Financial Statements, and (4) Required Supplementary Information (RSI). RSI consists of: (1) Management’s Discussion and Analysis (MD&A) and (2) Budgetary Comparison Schedule – General Fund. RSI is information presented along with, but separate from, **the Municipality’s** Basic Financial Statements.

1. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality’s** financial activities for the fiscal year ended June 30, 2019, based on **the Municipality’s** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality’s** operations.
2. Budgetary Comparison Schedule – general fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

(c) Reporting Entity

The accompanying Basic Financial Statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of **the Municipality’s** Director of Finance and Budget, as prescribed by Act No. 81.



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)**

(c) **Reporting Entity**

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete. After applying these considerations, the Municipality's management has concluded that there are no legally separate entities or organizations that should be reported as component units.

(d) **Financial Statements Presentation**

The Municipality's Basic Financial Statements consist of: (1) the Management's Discussion and Analysis (MD&A), a narrative that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities, (2) the Government-Wide Financial Statements, (3) the Governmental Funds Financial Statements, (4) the Notes to Basic Financial Statements, and (5) the Required Supplemental Budgetary Comparison Schedule of the General Fund and the related Notes to the Budgetary Comparison Schedule.

Government-Wide Financial Statements

The Governmental-Wide Financial Statements ("GWFS") are composed of the Statement of Net Position and, the Statement of Activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

The focus of GWFS is on the operational accountability of the Municipality as a single economic unit and not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability). Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying Statement of Net Position provides short-term and long-term information about the Municipality's financial position by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by the Municipality the extent to which the Municipality has invested in capital assets and discloses legal and contractual restrictions on resources.

Net Position is reported in the accompanying Statement of Net Position within the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – These consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding debts that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – These results when constraints are placed on net position use, which can be either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – These consists of resources which do not meet the definition of the two preceding categories. Unrestricted resources often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted resources often have constraints that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.



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

The accompanying Statement of Activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2019, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying Basic Financial Statements are: (1) General Government, (2) Urban and Economic Development, (3) Public Safety, (4) Health and Sanitation, (5) Culture, Recreation and Education and (6) Public Housing and Welfare. The governmental operations of **the Municipality's** departments and operational units are classified within the following functions/programs in the accompanying Basic Financial Statements:

General Government:

- Municipal Legislature
- Mayor's Office
- Department of Finance and Budget
- Department of Human Resources
- Department of Municipal Secretary
- Department of Internal Audit
- Department of Public Relations
- Department of General Services

Urban and Economic Development:

- Department of Public Works
- Department of Planning and Development
- Department of Municipal Facilities

Public Safety:

- Department of Municipal Police
- Department of Emergency Management
- Department of Medical Emergencies

Health and Sanitation:

- Department of Sanitation

Culture, Recreation and Education:

- Department of Recreation and Sports
- Department of Arts, Culture and Tourism
- Department of Faith and Community Base

Public Housing and Welfare:

- Department of Elderly Affairs
- Department of Citizens Affairs
- Department of Federal Programs

The Statement of Activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: program revenues, general revenues and special items.



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

Program revenues are generated directly from a program itself or may come from parties outside **the Municipality's** taxpayers or citizens. In the Statement of Activities, program revenues reduce the costs (expenses) of the function/program to arrive at; the net cost of the function/program that must be financed from **the Municipality's** general revenues or, the net program revenue that contributes to **the Municipality's** general revenues. The accompanying Statement of Activities separately reports the following categories of program revenues:

- **Charges for Services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific Operating and Capital Grants and Contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to **the Municipality**. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property, municipal license and construction excise taxes are reported as general revenues. All other nontax revenues (unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by **the Municipality** are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying Statement of Activities includes expenses that are, in essence, indirect or costs of other functions/programs of **the Municipality**. Even though some of these costs have been charged to certain funds in the governmental fund's financial statements as indirect cost allocations permitted under some federal programs, **the Municipality** has reported these indirect costs as direct expenses of the general government function. Accordingly, **the Municipality** generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying Statements of Net Position and Activities.

The Municipality classifies all of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support **the Municipality's** programs or services. These governmental activities are also generally reported in the governmental fund's financial statements.

The Municipality has no fiduciary activities, which are those in which it would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. However, **the Municipality** do have operations or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Those activities are presented as enterprise fund in the government wide statements.



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

Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying Governmental Fund Financial Statements (“GFFS”) are composed of; the Balance Sheet - Governmental Funds, and the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.

The focus of the GFFS is on major governmental funds, which are determined using a predefined percentage of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures of either the fund category or the governmental and proprietary funds combined. Accordingly, the Municipality presents its governmental funds between major and non-major categories. Major individual governmental funds are reported individually as separate columns, while data from all non-major governmental funds are aggregated into a single column.

The Municipality reports its governmental funds within the following categories:

- **General Fund** – The general fund is **the Municipality’s** main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that **the Municipality’s** governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund; legal requirements, GAAP requirements or, the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Debt Service Fund** – The debt service fund is used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for long-term obligations for which **the Municipality** is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.
- **Non-major Governmental Funds** – The non-major governmental funds are reported within a single column and include several special revenue and capital projects funds. The special revenue and capital projects funds are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes.

Municipal Enterprise Fund Statements

GASB Statement No. 34 established that enterprise funds are a proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. The content of the pronouncements states that a given activity must be accounted for in an enterprise fund if it meets any of the following criteria: (1) There is outstanding debt that is backed solely by fees and charges, (2) laws and regulations require that fees and charges be set to recover costs, including capital costs, or (3) There is a pricing policy that fees and charges be set to recover costs, including capital costs. Accordingly, enterprise funds accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

In 2016, the Municipality created the Cabo Rojo City Enterprise for the Economic, Cultural and Recreational Development, under which the Excelsior Theater-Cinema is being administered. Later, during the 2016 – 2017 fiscal year, the Nestor Nazario Gym was added to this group. The purpose of this enterprise is to provide new services and an income source to the Municipality other than taxes imposed to the citizens and visitors of the City.



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

In compliance with the aforementioned establishment, the operation of this new municipal enterprise is presented as a business type activity in this financial statement report. The financial information is included, discreetly, in an enterprise fund statement of net position, an enterprise fund statement of activities and as a separate column of the Municipality Government Wide Financial Statements at June 30, 2019.

Cash and Cash Equivalents - For the purposes of the Statement of Cash Flows, the enterprise fund considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(e) Measurement Focus, Basis of Accounting and Statements Presentation

The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include fees for licenses and permits, charges for services, and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (that generally is when the taxpayers' net sales or revenues subject to tax take place).

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Meanwhile, and in accordance with GASB Statement No. 65, amount received in advance are recorded as deferred inflows of resources in the governmental funds balance sheet.



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

(e) Measurement Focus, Basis of Accounting and Statements Presentation

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, deferred outflows of resources and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflows of resources.

According to GASB No. 34, all general capital assets and the long-term liabilities are recorded only in the accompanying statement of net position. The measurement focusses and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus and basis of accounting used in the preparation of the accompanying GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as result of transactions and events of the fiscal year reported.

Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues to be available if collected within 90 days after June 30, 2019, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2019.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred inflows of resources.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, fees for licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.



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

(e) Measurement Focus, Basis of Accounting and Statements Presentation

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Deferred outflows of resources and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants). Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2019.

As previously discussed, **the Municipality** adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASB No. 6), which modifies the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting and clarifies a number of situations in which **the Municipality** should distinguish between governmental fund liabilities and general long-term liabilities.

Pursuant to the provisions of GASB No. 6, expenditures and related liabilities are generally recorded in the accompanying GFFS in the accounting period in which the liability is incurred, as under the accrual basis of accounting, but only to the extent that they are normally expected to be liquidated with expendable financial resources.

Modifications to the accrual basis of accounting in accordance with GASB No. 6 include:

- Employees' accumulated vacation, sick leave and compensatory time (compensated absences) is recorded as expenditure when consumed. The amount of the unpaid compensated absences has been reported only in the accompanying statements of net assets.
- Principal and interest on bonds and note payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1 which are recorded as governmental fund liabilities at June 30 which is the date when resources were available in the debt service fund.
- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).
- Certain accounts payable, intergovernmental payables and other accrued liabilities not due and payable or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net assets. Such liabilities are recorded in the governmental funds when they mature.
- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.



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

(e) Measurement Focus, Basis of Accounting and Statements Presentation

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and full from current financial resources.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the financial reporting model established by GASB No. 34, all general capital assets and unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying state of net position.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(f) Budgetary Control

According to the Autonomous Municipalities Act of the Commonwealth of Puerto Rico, the Mayor and its Administrative Cabinet prepare each fiscal year an annual budget for **the Municipality's** general fund and debt service fund. Such legally adopted budget is based on expected expenditures by program and estimated resources by source for both funds. The annual budget is developed using elements of performance-based program budgeting and zero-based budgeting, and includes an estimate of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budget is prepared.

The Mayor must submit an annual budgetary resolution project (the project) to the Commonwealth Management and Budget Office (CMBO) and the Municipal Legislature no later than each May 10 and May 15, respectively. The CMBO preliminarily verifies that the project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before each June 13.

The Municipal Legislature has 10 business days up to no later than June 13 to discuss and approve the project with modifications. The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approve the project, the modified project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections. If the project is rejected by the Mayor, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved project is sent again to the Mayor, which then would have 3 days to sign and approve it.

If a budget is not adopted prior to the end of the deadlines referred to above, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits **the Municipality** to continue making payments for its operations and other purposes until the new budget is approved.



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)**

(e) **Budgetary Control**

The annual budget may be updated for any estimate revisions as well as year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budget, which is subject to the approval of the Municipal Legislature

For day to day management control, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. The Municipal Legislature may transfer amounts among programs within and between funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the Laws and Regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

(f) **Budgetary Accounting**

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The accompanying Statement of Revenues and Expenditures - Budget and Actual - Budgetary Basis - General Fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2019. Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2018, which is prepared by **the Municipality's** Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP. Accordingly, the accompanying budgetary comparison schedule is accompanied by a reconciliation of the differences between the budgetary basis and GAAP actual amounts.

The Municipality does not legally adopt budgets for the state legislative joint resolutions capital fund. The financial resources received by these funds are not subject to budgeting by **the Municipality** since the resources received each year from the respective grantors varies from year to year, and the respective amounts are granted at their discretion.

(g) **Unrestricted and Restricted Deposits**

As of June 30, 2019, **the Municipality's** deposits are composed of; demand deposits in commercial banks, demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent) and, Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms) a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)**

(g) **Unrestricted and Restricted Deposits (Continued)**

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the Laws and Regulations of the Commonwealth, public funds deposited by **the Municipality** in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in **the Municipality's** name.

Cash in fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$4,703,919 which are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to \$853,018 which is restricted for the acquisition, construction or improvements of major capital assets and, the operations of federal and state funded programs.

Restricted cash in commercial banks for other governmental funds, amounting to \$1,172,480 are restricted to finance the acquisition, construction and improvement of major capital assets.

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2019. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables. Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of **the Municipality's** debt service, as established by Law.

Intergovernmental receivables are mainly composed of: amounts owed to **the Municipality** for reimbursement of expenditures incurred pursuant to state and federally funded programs (recorded in the general fund, special revenue fund and capital project funds as deferred outflows of resources).

These accounts receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Advances between funds, as reported in the GFFS, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(h) **Capital Assets**

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment, furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.



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

(h) Capital Assets (Continued)

For financial reporting purposes, **the Municipality** defines capital assets as assets with an individual cost of \$500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

Depreciation and amortization expense are recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term.

The estimated useful lives of major capital asset categories are:

Description	Years
Land Improvements	20
Buildings, Structures and Building Improvements	10-50
Infrastructure	10-50
Licensed Vehicles	8
Furniture and Fixtures	5-20

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)**

(i) **Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. **The Municipality** has no deferred outflows of resources.

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

The Municipality reports deferred inflows or resources on its GFFS and GWFS. In the GFFS, deferred inflows of resources arise when:

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. As previously discussed, available is defined as due (or past due) at June 30, and collected within 90 days thereafter to pay obligations due at June 30, or;
- The resources are received by the **Municipality** before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when **the Municipality** has a legal claim to the resources, the deferred inflow of resources is removed, and revenue is recognized.

Deferred revenues at the government-wide level arise only when **the Municipality** receives resources before it has a legal claim to them. At June 30, 2019, the governmental funds present deferred inflows of resources.

(j) **Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements.

(k) **Compensated Absences**

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net position is limited to leave that; is attributable to services already rendered on or before June 30, 2019 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of Social Security taxes, Medicare taxes, employer contributions to the employees’ retirement systems and others).



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED)**

(k) **Compensated Absences (Continued)**

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2 days per month (15 days per year). Employees accumulate regular sick leave at a rate of 2.5 days per month (12 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with **the Municipality** before reaching 10 years of services, such regular sick leave days is not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time.

The liability for compensated absences is reported in the statement of net position. A liability for compensated absences is reported in the GFFS only if they have matured, for example, as a result of employee resignations and retirements.

(l) **Long-term Debts**

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, obligations under capital leases, accrued compensated absences, estimated for landfill closure and post closure care costs, and legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, are recorded as governmental fund liabilities in the GFFS when resources are available in the debt service fund (June 30, 2019). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

(m) **Accounting for Pension Costs**

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.



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

(m) Accounting for Pension Costs (Continued)

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for **the Municipality's** fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change.

At the date of issuance of the basic financial statements of the Municipality, the ERS has not issued the corresponding audited financial statements as of June 30, 2017, nor the attachments required by GASB 68. However, **the Municipality** used the Actuarial Valuation Report issued by the actuaries for the fiscal year 2016 to calculate the values of the Net Pension Liability, Deferred Outflows/Inflows of Resources and Pension Expense items corresponding to the fiscal year 2019.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing multi-employers plan. During the current fiscal year, the Municipality implemented the second pronouncement issued, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployees contributing entities to the pension plan and earnings on those contributions are irrevocable;
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- Pension plan assets are legally protected from the creditors of employers, nonemployees contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For the purpose of applying the requirements of GASB No. 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a cost-sharing multi-employer Defined Benefit Pension Plan, and Defined Contribution Hybrid Program, in which the employees of **the Municipality** participate. **The Municipality** is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. After that, and based in the fiscal crisis of the Commonwealth, was enacted the Act No. 106 of 2017 to establish a New Define Contribution Plan and create the "pay as you go" scheme for payment of pensioners of the ERS and other two retirement systems (see Notes 18 and 30).

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



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

(n) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of **the Municipality** and then is reimbursed each year through monthly equal payments deducted from **the Municipality's** gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronyms), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico (see note 4).

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from **the Municipality's** gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth's Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2019. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

(o) Reservation of Fund Balances

Reservations of fund balances represent portions of fund balances that are legally segregated for specific future uses or are not appropriated for expenditure. According the provisions of GASB No. 54, the fund balances are reported in five categories:

- **Restricted** – Represent amounts are legally restricted by outside parties, constitutional provisions or enabling legislation for a specific purpose.
- **Assigned** – Represent fund balance amounts that are intended to be used by **the Municipality** for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – Represents the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In a governmental fund other than the general fund, a negative amount indicates that the expenditures incurred for a specific purpose exceeded the amounts in the fund that are restricted, committed and assigned to that purpose.



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

(p) Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. **The Municipality** has the following types of reciprocal and nonreciprocal interfund activities:

- **Interfund Loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Interfund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, interfund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- **Interfund Transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- **Interfund Reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

(q) Claims and Judgements

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

(r) Use of Estimates

The preparation of the accompanying Basic Financial Statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(s) Municipal Solid Waste Landfill Closure and Post Closure Care Cost

Solid waste landfill closure and post closure care costs are accounted for under the provisions of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by GASB (GASB No. 18).

The estimated liability for solid waste landfill closure and post closure care costs (including monitoring and maintenance) includes an estimate of all costs to be incurred near or after the close of **the Municipality's** solid waste landfill. In the government-wide statement of net position, this liability is recognized under the accrual basis of accounting, over the useful life of the landfill, even though such costs will only be incurred, by definition, near or after the close of the landfill.



1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICES, (CONTINUED)**

(s) **Municipal Solid Waste Landfill Closure and Post Closure Care Cost (Continued)**

The estimates of closing and post-closing costs include; the cost of equipment and facilities that will be acquired near the time the landfill stops accepting waste or after for the purpose of post closure care and monitoring, the cost of applying the final cover and the cost of post closure maintenance and monitoring. These cost estimates are made using current costs (costs that would be incurred if these services would have been obtained during the current period). The liability is adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

Any changes in the estimated total current costs that occur before the landfill stops accepting solid waste are reported in the period of the changes, and an adjustment is made to the calculation, which is accounted for prospectively as a change in accounting estimate. On the other hand, the accounting for a horizontal expansion of the land fill has no effect in the factors used to calculate the accrued liability for the closure and post closure costs of the original landfill. In this case, a separate calculation of the closure and post closure care costs for the expanded portion of the landfill is made for each financial reporting period.

Changes in the estimated total current cost for landfill closure and post closure care costs may also occur after the date that the landfill stops accepting solid waste. The changes may include changes due to inflation (or deflation), changes in technology, changes in closure and post closure care requirements, corrections of errors in estimation, and changes in the extent of environmental remediation that is required. Changes in these estimates would be reported in the period in which the change is probable and reasonably estimable.

In the GFFS, landfill closure and post closure care costs are recorded in the accounting period in which they are due (when they mature) under the modified accrual basis of accounting.

(t) **Adoption of New Accounting Pronouncements**

Effective July 1, 2018 the Municipality adopted the provisions of the following accounting pronouncements:

- **GASB Statement No. 83** “*Certain Asset Retirement Obligations*” This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.
- **GASB Statement No. 88** “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*” The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of the statement does not have a significant impact on the financial statement amounts and related disclosures.



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

(u) Future Adoption of Accounting Pronouncements

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

- **GASB Statement No. 84** “*Fiduciary Activities*” The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020). Earlier application is encouraged.
- **GASB Statement No. 87** “*Leases*” The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

This Statement will increase the usefulness of governments’ financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government’s leasing arrangements. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal year ended June 30, 2021). Earlier application is encouraged.



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

(u) Future Adoption of Accounting Pronouncements (Continued)

- **GASB Statement No. 89** “*Accounting for Interest Cost Incurred before the End of a Construction Period*” The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (fiscal year ended June 30, 2021). Earlier application is encouraged. The requirements of this Statement should be applied prospectively.
- **GASB Statement No. 90** “*Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*” The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020). Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.
- **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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021 (fiscal year ended June 30, 2022). Earlier application is encouraged.



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

(u) Future Adoption of Accounting Pronouncements (Continued)

- **GASB Statement No. 92** “Omnibus 2020” The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:
 - The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports,
 - Reporting of intra-entity transfers of assets between a primary government employer and a component,
 - The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits,
 - The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements,
 - Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition,
 - Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers,
 - Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature,

Terminology used to refer to derivative instruments. The requirements of this Statement are effective as follows (Earlier application is encouraged and is permitted by topic:

- 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 (issued in January 2020),
- 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, 2020 (fiscal year ended June 30, 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, 2020 (fiscal year ended June 30, 2021),
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020 (fiscal year ended June 30, 2021).

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



2. DEPOSIT

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and the Government Development Bank for Puerto Rico (GDB). Proceeds from all bonds and the funds related to certain federal grant awards are required by law to be held with GDB.

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure.

- **Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, **the Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, **the Municipality** is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, **the Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, **the Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on **the Municipality's** deposits is considered low at June 30, 2019.
- **Interest Rate Risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **The Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2019, limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts at prevailing market rates. At June 30, 2019, interest rate risk associated with **the Municipality's** cash is considered low.
- **Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, **the Municipality's** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by **Municipalities** are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality's** name by the agents of the Commonwealth's Secretary of Treasury.

Due to the closure of operations of the Government Development Bank, **the Municipality** entered into a restructuring of the existing municipal deposits in this institution, From the amount of deposits owned by **the Municipality** to year 2018, amounting to \$5,370,127, a transaction was made in November 2018 to reduce the municipal long-term debt by \$4,517,109. **The Municipality** is still carrying out administrative actions to request the transfer to remaining balance in the amount of \$853,018.

- **Foreign Exchange Risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to **the Municipality's** deposits is considered low at June 30, 2019.



3. RECEIVABLES

Property Taxes Receivables

Property taxes receivable of \$461,796 in the Debt Service Fund, represents amounts collected in advance at June 30, 2019, by the Municipal Revenue Collection Center, but that had not been deposited in the accounts of **the Municipality** at the end of the fiscal year.

Intergovernmental Receivables

Receivables in the General Fund represent expenditures incurred not yet reimbursed by the state agencies. At end of current year, the state government receivable was related to the State Department of Labor in the amount of \$81,086.

Federal Grants Receivable

Federal grants receivable in Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants' receivable:

Description	Amount
Homeless Prevention Rapid Rehousing Grant	\$ 186,657
Emergency Grant Solution	11,804
Housing Prevention Grant	13,791
Other Programs	1,005,928
Total	\$ 1,218,180

Receivables and Deferred Outflows of Resources

Pursuant to GASB Statement No. 63 and GASB Statement 65, **the Municipality** recognized deferred outflows of resources in the government wide financial statements. These items are a consumption of net position by **the Municipality** that is applicable to a future reporting period.

This part was intentionally left blank



4. INTERFUND BALANCES

On July 1, 2001, **the Municipality** adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2019 consisted of the following:

Transfers from						
Transfers to:	Major funds					Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Hurricane María	Other Governmental Funds	
Major Funds:						
<i>General Fund</i>	\$ 1,208,145	-	-	-	-	1,208,145
<i>Debt Service Fund</i>	354,977	-	-	-	-	354,977
Nonmajor Funds:						
<i>Other Governmental Funds</i>	33,195	-	-	-	-	33,195
Total	1,596,317	-	-	-	-	1,596,317

Due from						
Due to:	Major funds					Total Governmental Funds
	General Fund	Debt Service Fund	Commonwealth Legislative Resolutions	FEMA Hurricane María	Other Governmental Funds	
Major Funds:						
<i>General Fund</i>	-	-	4,279,781	-	774,490	5,054,271
<i>Debt Service Fund</i>	1,837,404	-	-	-	-	1,837,404
<i>FEMA Hurricane María</i>	850,577	-	-	-	-	850,577
Nonmajor Funds:						
<i>Other Governmental Funds</i>	352,014	-	-	-	-	352,014
Total	\$ 3,039,995	-	4,279,781	-	774,490	8,094,266

The amount registered in the debt service fund for \$1,837,404 as a due to other fund, is related to the amount of excess funds that are accumulated and for which a transfer to the general fund account is requested. At June 30, 2019, all amounts due to among funds are considered collectible by **the Municipality's** management.

This part was intentionally left blank



5. ACCOUNT PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2018-2019, and not paid by **the Municipality** at June 30, 2019.

Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 4,783,864	28,125	4,811,989
Debt Service Fund	763,616	-	763,616
Commonwealth Legislative Resolutions Fund	143,444	-	143,444
FEMA Hurricane Maria	264,000	-	264,000
Other Governmental Funds	148,895	-	148,895
Total	\$ 6,103,819	28,125	6,131,944

6. BONDS AND NOTES PAYABLE

As described below in Note 12, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2019, the government-wide presented \$1,953,616 of accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests:

Description	Amount
Principal	\$ 22,703,891
Interests	763,616
Total	\$ 23,467,507

7. INTERGOVERNMENTAL PAYABLES

As of June 30, 2019, balance due to other governmental units in General Fund consists of the following:

Governmental Agency	Amount
State Retirement System Administration	\$ 1,324,356
State Aqueduct and Sewer Authority	157,583
Health Insurance Administration	1,010,300
General Services Administration	4,631
Department of Labor	547
Total	\$ 2,497,417



7. INTERGOVERNMENTAL PAYABLES (CONTINUED)

Puerto Rico Energy and Power Authority Notification

During the process of compiling the financial statements of the Municipality, for the fiscal year 2018-2019, a notification of debt was received from the Puerto Rico Energy and Power Authority (PREPA). This document reflected an apparent debt accumulated by the Municipality of Cabo Rojo for the total of \$12,950,610

The municipal administration does not recognize this alleged debt in its financial statements since it is directly related to a Lieu of Taxes agreement that goes back to the creation of PREPA through Act 83 of 1941, as amended. Among other things, in this exchange agreement it was established that PREPA would not pay the municipal taxes related to Property Tax, Construction Excise Tax and Municipal Licenses Tax. In exchange for this payment cancellation, the municipalities would not have to pay for energy consumption in the municipal facilities.

Never before has PREPA notified the Municipality of this alleged debt that presents accumulations from 2015 to the present, with an unprovable annual average that exceeds the amount of \$1,652,210. Clearly this notification must be the product of an error in the PREPA system or an attempt by the Authority to submit inflated financial reports with accounts receivable from municipalities that are not real.

From an accounting perspective, based on the aforementioned, in the event that PREPA decides not to withdraw its notification of debt to the Municipality, the municipal administration would be forced to recognize an account receivable from PREPA for the same amount of \$12,950,610. Reason for which this recognition would not have any effect on the fund's balances of the Municipality.

8. UNEARNED REVENUES AND DEFERRED INFLOWS OF RESOURCES

DEFERRED OUTFLOWS OF RESOURCES

Municipal License Tax – Unearned revenues of \$1,715,919 in the General Fund are related to volume of business taxes collected in fiscal year 2018-2019, that will be earned in fiscal year 2019-2020.

State and Federal Grants – Unearned revenues presented in the other governmental funds represents the portion of state and Federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the state and Federal government are as follows:

Unamortized Investment in ERS - Pursuant to GASB Statement No. 63 and GASB Statement No. 65, **the Municipality** recognized deferred inflows of resources in the government-wide statements. These items are an acquisition of net position by **the Municipality** that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

At the end of the current fiscal year, the component of deferred revenues reported in the basic financial statement is the Administration of Children and Families with the amount of \$29,362.

This part was intentionally left blank



9. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	Balance at June 30, 2018	Additions / increases	Disposals / decreases	Reclassification	Balance at June 30, 2019
COST BASIC:					
Cost basis of capital assets, not subject to depreciation and amortization:					
Land	\$ 10,381,090	-	-	-	10,381,090
Construction in progress	1,961,854	-	-	-	1,961,854
Total cost basis of capital assets, not subject to depreciation and amortization	12,342,944	-	-	-	12,342,944
Cost basis of capital assets, subject to depreciation and amortization:					
Land improvement	8,941,417	543,512	-	-	9,484,929
Building, structure and improvements	51,784,194	42,372	-	-	51,826,566
Infrastructure	38,637,618	593,073	-	-	39,230,691
Machinery and equipment	4,087,754	96,679	-	-	4,184,433
Licensed vehicles	10,106,912	73,845	-	-	10,180,757
Total cost basis of capital assets subject to depreciation and amortization	113,557,895	1,349,481	-	-	114,907,376
Total cost basis of capital assets	125,900,839	1,349,481	-	-	127,250,320
	Balance at June 30, 2018	Depreciation and Amortization Expense	Disposals / decreases	Reclassification	Balance at June 30, 2019
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Land improvement	4,058,235	490,532	-	-	4,548,767
Building, structure and improvements	16,946,462	1,412,554	-	-	18,359,016
Infrastructure	19,290,965	1,853,211	-	-	21,144,176
Machinery and equipment	8,392,779	328,496	-	-	8,721,275
Licensed vehicles	3,024,500	409,438	-	-	3,433,938
Total accumulates depreciation and amortization	51,712,941	4,494,231	-	-	56,207,172
CAPITAL ASSETS, NET	\$ 74,187,898	(3,144,750)	-	-	71,043,148

Depreciation and amortization expense were charged to functions programs as follows:

Governmental Activities:

General Government	\$ 2,705,976
Urban and Economic Development	491,567
Public Safety	424,893
Health and Sanitation	268,827
Culture, Recreation, and Education	258,332
Public Housing and Welfare	344,635

Total \$ 4,494,231

The business-type activities have property net accumulated depreciation of \$4,179.



10. RETIREMENT PLAN

a. *Pension System – Prior to July 1, 2017*

The Municipality was a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2017, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990 and Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999. Employees under Act 447 and Act 1 were participants of a cost-sharing multiple employers defined benefit plan.
- Act No. 305 of September 24, 1999 ("Act 305"), which amended Act 447 and Act 1, for members hired from January 1, 2000 up to June 3, 2013. Act 305 members were participants under a pension program known as System 2000, a defined contribution plan. Under System 2000 benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.
- Act No. 3 of April 4, 2013 ("Act 3") effective on July 1, 2013 for members participating under Acts No. 447, 1 and 305 or members hired on or after July 1, 2013. Act No. 3 amends the provisions of the different benefits structures under the ERS moving all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a defined contribution hybrid plan. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrued under Act 3 plan. Contributions were maintained by each participant in individual accounts. Credits to the individual accounts include (1) contributions by all members of ERS Act 447 and Act 1 defined benefit pension plans after June 30, 2013; (2) the retirement savings account as of June 30, 2013 of System 2000 participants and, (3) the investment yield for each semester of the fiscal year. The assets of the defined benefit program, System 2000 and the defined contribution hybrid plan were pooled and invested by ERS.

All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act 447 and Act 1 active participants all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan. These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits ("Coordinated plan"). Under this option participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age. For all members, if the balance of the defined contribution individual account is less than \$10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013 the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is \$500.

In addition to retirement benefits, under Act 3 the System provides for termination benefits, deferred retirement, death and disability benefits. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447. A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico.



10. RETIREMENT PLAN (CONTINUED)

a. Pension System – Prior to July 1, 2017 (Continued)

There are other “special laws and pensioner additional benefits for retired employees prior to July 1, 2013 including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners “Additional Benefits Program”. All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The “Additional Benefits Program” includes: (1) a medication bonus of \$100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of \$200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of \$1,200 for healthcare insurance plan. On September 30, 2016, the ERS was designated by the Oversight Board as a “covered instrumentality” pursuant to the provisions of PROMESA. The Act requires covered instrumentalities to develop fiscal plans and accordingly, a pension fiscal reform was included as part of the Commonwealth’s fiscal plan which was proposed and approved by the Oversight Board on March 13, 2017. As a result of the ERS’s severe fiscal and liquidity crisis, on May 21, 2017 the Oversight Board filed a voluntary petition under Title III of PROMESA in the United States District Court for the District of Puerto Rico (the “District Court”).

b. Pension System – After to July 1, 2017

Act No. 106 of August 23, 2017 (“Act 106”) was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the reform of ERS’s governance and administration and the creation and transition to a new defined contribution plan.

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record.

The accrued pension benefits will be funded through (1) the net proceeds of the sale of ERS’s assets, (2) a pay-as-you-go (“Pay Go”) charge to the participant employers determined by ERS and billed by the PRDT, (3) Commonwealth’s legislative expenditure appropriations, (4) donations by any public or private entity, (5) 25% of first or periodic payments on public-private partnership contracts, (6) other funds determined by the Commonwealth’s Legislature.

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new Pay Go model, effective on July 1, 2017. Under the Pay Go funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay benefits even after the plans’ assets have been exhausted. Payments are made by the employers (the Municipality) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS’s assets become depleted, the Pay Go charge will increase.

Act 106 includes penalties and specific procedures for collection of unpaid Pay Go charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required.



10. RETIREMENT PLAN (CONTINUED)

b. Pension System – After to July 1, 2017 (Continued)

Act 106 created a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and performs overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

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

General - Effective August 23, 2017, a new defined contribution plan ("Act 106 Retirement Plan") was created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board is responsible for oversight of the Act 106 Retirement Plan; the PRDT currently serves as the trustee and custodian of the Act 106 Retirement Plan's assets, which are deposited in a private bank account. The transition to the new Act 106 Retirement Plan is currently in process.

The Retirement Board appointed a plan administrator which will perform recordkeeping and management functions for the Act 106 Retirement Plan. The transition period includes the development and adoption of a plan document, the creation of a separate trust, the transfer of participant accounts and after December 19, 2019, the opportunity to the participants to gain on-line access to their accounts and select and manage their investment options.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After December 19, 2019, the participants will have on-line access to their accounts and may manage their investment options.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the Act 106 Retirement Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the Act 106 Retirement Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the Pay Go system.

c. Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions; other GASB Statement 68 required disclosures

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a Pay Go funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that do not meet the requirements of GASB Statement No. 68 as of July 1, 2017. As a consequence, the employers are subject to the requirements of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68".



11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The ERS has not issued audited financial statements as of and for the fiscal year ended June 30, 2017 and 2018 nor has provided to the Municipality certain required information necessary to properly implement the provisions of GASB Statement No. 73 as of and for the fiscal year ended June 30, 2019. Amounts related to pensions reported in the government-wide financial statements are the same amounts reported in the 2018 financial statements under GASB Statement No. 68. Amounts reported as deferred outflows \inflows of resources related to pensions and net pension liability in the government-wide financial statements had not been updated since previous years. In addition, applicable disclosures and required supplementary information have been omitted.

1. *Plan Description*

The Municipality is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERSMIPC"). 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.

2. *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).

3. *Contributions*

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The Municipality's contribution is financed through the monthly Paygo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

4. *OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB; other GASB Statement 75 required disclosures*

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2017 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", as of June 30, 2019. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.



12. LONG-TERM DEBTS

The Municipal Legislature is legally authorized to approve the contracting of debts of **the Municipality**. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of **the Municipality** (evidenced principally by bonds and bond anticipation notes) are backed by the full faith, credit and taxing power of **the Municipality**; and
- Direct obligations are not to be issued by **the Municipality** if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by **the Municipality** in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by **the Municipality**, exceed 10 percent of the total assessed value of the property located within **the Municipality** plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2019, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2019 was as follows.

The following is a summary of changes in long-term debt of **the Municipality** for the year ended June 30, 2019:

Descriptions	Balance at June 30, 2018	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2019	Balance due within one year
General and Special Obligation Bonds	\$ 29,198,000	-	6,494,109	22,703,891	1,190,000
Note Payable to CRIM - Delinquent Accounts	186,658	-	13,333	173,325	13,333
Landfill Closure and Post Closure Costs	10,142,729	1,732,271	-	11,875,000	-
Compensation Absences	2,908,694	-	150,646	2,758,048	714,842
Note Payable to Landfill Technologies	708,079	-	151,728	556,351	151,728
Christmas Bonus	158,030	-	12,566	145,464	-
Note payable to Consolidated Waste Services	4,121,724	-	448,272	3,673,452	448,272
Net Pension Liabilities	71,449,669	-	-	71,449,669	-
Note Payable to Cargo Pay Go	-	1,255,332	-	1,255,332	-
Community Disaster Loan (CDL)	-	5,000,000	-	5,000,000	-
Total:	\$ 118,873,583	7,987,603	7,270,654	119,590,532	2,518,175

This part was intentionally left blank



12. LONG-TERM DEBTS (CONTINUED)

Bonds Payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2019 is composed of the following debts:

Description	Outstanding Amount
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 6.41% to 6.56%.	\$ 300,000
2002 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest at rates ranging from 5.01% to 5.60%.	2,215,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	280,000
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	295,000
2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest at rates ranging from 4.66% to 5.02%.	575,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest at rates ranging from 4.66% to 5.02%.	240,000
2010 general obligation bonds of \$9,405,000 due in annual installments ranging from \$135,000 to \$785,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50%.	7,704,388
2011 general obligation bonds of \$4,530,000 due in annual installments ranging from \$100,000 to \$415,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50%.	3,398,150
2012 general obligation bonds of \$3,255,000 due in annual installments ranging from \$45,000 to \$270,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	762,609
2012 general obligation bonds of \$2,556,000 due in annual installments ranging from \$100,000 to \$271,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50%.	1,471,945
2014 general obligation bonds of \$5,985,000 due in annual installments ranging from \$90,000 to \$505,000 through January 1, 2038; bearing interest at rates ranging from 6.00% to 7.50%.	5,461,799
Total	\$ 22,703,891



12. LONG-TERM DEBTS (CONTINUED)

The general obligation bonds and the public improvements bonds are payable from the ad valorem property tax of 1.25% which is used primarily for debt service and requires the accumulation off a reserve to cover the payment of principal and interest over a period of twelve (12) months from the end of each fiscal year. This amount is restricted and retained by GDB for such purposes.

The laws and regulations of the Commonwealth provide that public debt of **the Municipality** will constitute a first claim on the available revenue of **the Municipality**. Public debt includes bonds and notes payable. The good faith, credit and taxing power of **the Municipality** are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The laws and regulations of the Commonwealth provide that public debt of **the Municipality** will constitute a first claim on the available revenue of **the Municipality**. Public debt includes bonds and notes payable. The good faith, credit and taxing power of **the Municipality** are irrevocably pledged for the prompt payment of the principal and interest of the bonds and notes payable.

The Municipality levies the aforementioned annual additional special tax of 1.25% of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds must be set aside to redeem the bonds in minimum annual or biannual principal and interest payments. Collections of this special tax are recorded in the debt service fund, however law No. 83 of 1991 and law No. 64 of 1996 states that any excess accumulated above the amounts required to meet the obligations of principal and interest, over the next twelve (12) months from the end of each fiscal year is made available to the municipality to pay debts with governmental entities and other general fund expenditures.

Interest rates on serial bonds subject to variable rates are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program, not to exceed 8%. Under this program, GDB issues commercial paper in the U.S. taxable and tax-exempt markets, in the Eurodollar market and to corporations that have tax exemption.

Annual debt service requirements of maturity for bonds payable are as follows:

Year ending June 30, 2019	Principal	Interest	Total
2020	\$ 1,190,000	1,509,554	2,699,554
2021	1,280,000	1,496,817	2,776,817
2020	1,370,000	1,406,270	2,776,270
2023	1,460,000	1,308,989	2,768,989
2024	1,575,000	1,204,001	2,779,001
2025-2029	7,394,554	4,375,541	11,770,095
2030-2034	5,493,150	2,092,057	7,585,207
2035-2038	2,941,187	439,829	3,381,016
2039	-	18,630	18,630
Total	\$ 22,703,891	13,851,688	36,555,579



12. LONG-TERM DEBTS (CONTINUED)

Notes Payable to CRIM – Delinquent Accounts

Law 146 – On 2001, a resolution was enacted to authorize **the Municipality** to obtain up to \$333,358, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal balance of the note payable to CRIM amounted to \$186,658, at June 30, 2018. The principal and interest maturities are as follows:

Year ending June 30, 2019	Principal	Interest	Total
2020	\$ 13,333	6,079	19,411
2021	13,333	5,645	18,977
2022	13,333	5,210	18,543
2023	13,333	4,776	18,109
2024	13,333	4,342	17,675
2025-2029	66,664	15,197	81,861
2030-2032	39,997	4,342	44,339
Total	\$ 173,325	45,591	218,915

Landfill Technologies Long Term Debt – **The Municipality** and Landfill Technologies were part of a Sentence for Stipulation and Transaction Agreement on January 2018. Through this agreement, **the Municipality** recognized a debt of \$910,383 for the administration of the municipal landfill. To satisfy this debt, Landfill Technologies accepted a long-term payment plan.

After this agreement, and the due approval of the Municipal Legislature, the municipal administration converted a short-term payable account into a long-term debt due in 2023. The debt will be settled with 71 monthly payments of \$12,644 and a last payment of \$12,659 accumulating interest of 0.50% per year. The principal and interest maturities are as follows:

Year ending June 30, 2019	Principal	Interest	Total
2020	\$ 151,728	759	152,487
2021	151,728	759	152,487
2022	151,728	759	152,487
2023	101,167	506	101,673
Total	\$ 556,351	2,782	559,133



12. LONG-TERM DEBTS (CONTINUED)

Consolidated Waste Services Long Term Debt – On April 2017, the Municipality and Consolidated Waste Services were part of a Sentence for Stipulation and Transactional Agreement. Through this agreement, **the Municipality** recognized a debt of \$4,569,996 for the collection of solid waste. To satisfy this debt, Consolidated Waste Services accepted a long-term payment plan.

After this agreement, and the due approval of the Municipal Legislature, the municipal administration converted a short-term payable account into a long-term debt due in 2027. The debt will be due in annual installments ranging from \$37,356 to \$50,000 with no accumulation of interest. This long-term debt payments are distributed as follows:

Year ending June 30, 2019	Principal	Interest	Total
2020	\$ 448,272	-	448,272
2021	448,272	-	448,272
2022	448,272	-	448,272
2023	448,257	-	448,257
2024	600,000	-	600,000
2025-2027	1,280,379	-	1,280,379
Total	\$ 3,673,452	-	3,673,452

Compensated Absences: At June 30, 2019, the liability for compensated absences amounted to \$2,758,047. This is the combination of balances related to accrued sick leave benefits, accrued vacation benefits, and compensatory leave benefits. The total amount of compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Accrued Vacations	\$ 324,252	663,134	987,386
Accrued Sick Leave	272,734	1,380,071	1,652,805
Accrued Compensatory Time	117,856	-	117,856
Total Compensated Absences	\$ 714,842	2,043,205	2,758,047

In the month of May 2018, **the Municipality** began the process to submit an application that would allow it to receive assistance from the CDL program. All the required information was submitted to demonstrate the need for assistance through this important program. The Municipality received the notification of approval of these resources in the amount of \$5,000,000. It is expected that the funds will be released in favor of the Municipality during the month of July 2018 and they will be used to match the budget revenue losses that occur during the next three years.



13. LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION

For those municipalities that own and operate a solid waste landfill, the Commonwealth and Federal laws and regulations require to place a final cover on its landfill when it ceases or discontinue accepting waste or close its landfill. Accordingly, the Municipality is required to perform certain maintenance and monitoring activities at the landfill site for thirty years after closure. In addition to the operating expenditures related to current activities of the landfill, an expense provision and related liability are being recognized based on future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to comply with applicable laws and regulations. As a result of this study, the Municipality has recognized an estimated liability for future closure and post-closure care costs. The recognition of this liability is based on the amount of the landfill used during the year. The estimated liability for landfill closure and post-closure care costs has a balance of \$11,875,000 as of June 30, 2019, which is based on 100% usage of the landfill and based on the amount that would be paid if all the equipment, facilities and services required to close, monitor and maintain the landfill were acquired as of June 30, 2019. However, the actual cost of closure and post-closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. At present the Municipality's landfill is not receiving solid domestic waste, which is being transported and deposited in another Municipality.

14. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of **the Municipality**. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2019, the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of \$3 million or more must include audited financial statements with the tax return filed. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration on April 15. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5 percent discount is granted automatically on the total tax due.

Municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$2,045,254 at June 30, 2019.

This part was intentionally left blank



15. PROPERTY TAXES

The Municipality is authorized by law No.83 of August 30, 1991 as amended to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 7.03% (of which taxpayers pay 6.83% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2016. Real property taxes are assessed by The Municipal Revenue Collection Center (“CRIM”). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate in force was 10.28% (of which 10.08% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2018.

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury assumes payment of the basic tax (4% and 6% for personal and real property, respectively) to **the Municipality**, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made.

CRIM is responsible for the billing and collections of real and personal property taxes on behalf of **the Municipality**. Prior to the beginning of each fiscal year, CRIM informs **the Municipality** of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, CRIM advances funds to **the Municipality** based on the initial estimated collections. CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than December 31. If CRIM remits to **the Municipality** property tax advances, which are less than the tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Act No. 83 of August 30, 1991, as amended, provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied by the Commonwealth but is collected by CRIM. Collections of this special tax are remitted to the Commonwealth’s debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.25% of the total personal and real property taxes collected by CRIM is separated for **the Municipality’s** debt service requirements and is deposited in a Trust retained by GDB for such purposes (see note 18, subsequent events). The aforementioned Act No.83 state that the proceeds of this 1.25% shall remain in the debt service fund, except for the portion that constitute excess in redemption fund. Excess in redemption fund is established by Act No. 64 of July 3, 1996 as amended, as any amount that exceeds the portion equivalent to the payment of twelve (12) months of principal and interest of debt service and the payment of any other public debt that the municipality has uncovered.

At June 30, 2019 the debt service fund, related to property taxes, had assets of \$5,165,715 of which \$1,374,695 constitute the reserve restricted by law for the payment of principal and interest during a period of twelve (12) subsequent months. According to GASB Statement No. 54 debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and that debt service funds should be used to report resources if legally mandated.



15. PROPERTY TAXES (CONTINUED)

Based on this GASB Statement and by the distinctions in law, existing excess of assets in the debt service fund is not presented as a restricted fund balance for debt service, instead a due to general fund is recognized since the Municipality has determined to use these resources to pay other obligations, as it is permitted by applicable regulations.

The Additional Lottery System of the Commonwealth (“Additional Lottery”) is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico.

The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth, of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities’ Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of an allowance for uncollectible accounts of \$48,359,310, amounted to \$2,639,525 at June 30, 2019. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2019 is as follows:

Property Tax Receivable			
As of June 30, 2019			
	General Fund	Debt Service Fund	Total
Gross property taxes receivable	\$ 32,722,341	18,276,494	50,998,835
Less: Allowance for uncollectible accounts	31,029,904	17,329,406	48,359,310
Net Property Tax Receivable	\$ 1,692,437	947,088	2,639,525

This part was intentionally left blank



16. MUNICIPAL SALES AND USE TAX

On October 25, 2006, the Municipal Legislature of Cabo Rojo approved the Ordinance No. 10, series 2005-06 based on State Public Law No. 117 of July 4, 2006 establishing a local sale and use tax of 1.5%, over the sales of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register in the Municipality to obtain a Retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 20th day following the month in which the tax was collected.

On July 29, 2007, the State Public Act No. 80 which amends Act No. 117 and establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected by **the Municipality** would be used for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs.

The resources collected by the PRTD, related to the 0.5% of Municipal Sale Tax, are deposited in the following special funds:

- a. .2% in the Municipal Development Fund to be distributed among all the municipalities through an inverse formula created by the Act,
- b. .2% in a Municipal Redemption Fund to finance future loans to municipalities, and
- c. .1% in a Municipal Improvement Fund to finance capital improvement projects subject to a distribution by the Commonwealth Legislature.

From February 1, 2014, onwards the Act No. 40 of June 30, 2013, as amended, reduced the municipal sales and use tax from 1.5% to 1.0% and increased the Commonwealth Sales and Use Tax from 5.5% to 6.0%. In addition, the Commonwealth approved Act No. 18 and Act No. 19, on January 24, 2014 to provide for the restructuring and creation of financing structures from sales and use tax sources in order to guarantee and pay municipal long-term debts. As a result, the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The Act No. 18 creates a special fund called Municipal Administration Fund under custody of the Governmental Development Bank of Puerto Rico (GDB). This fund permits participants municipalities to guarantee and pay long term debt and provide funds for its general operations. The Act also improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA). The necessary resources to create the Municipal Administration Fund will come from the amounts collected by 0.5% of the 6.0%, related to the Commonwealth Sales and Use Tax, and will be distributed among the special funds that had been created by the Act No. 80 of July 29, 2007.

The Act No. 19 creates a public corporation, as a component unit of the GDB, under the name of Municipal Finance Corporation (COFIM). The new COFIM may issue, pay or refinance the municipalities long term debt related to the Municipal Sales and Use Tax Redemption Fund. Under this corporation, the new issuance of municipal long-term debts will be guaranteed with the municipal sales and use tax of 1.0%.

For this purpose, the Municipal Sales and Use Tax of 1.0% will be deposited in the COFIM. From the monthly amount collected, the COFIM will deposit 0.3% of the 1.0% on the COFIM sinking fund. The excess of the required deposit (0.7%) will be transferred to the municipalities.

Act No. 18 and Act No. 19 also include provisions for municipalities that do not want to participate in the new procedures established in the COFINA and the COFIM structures. The non-participating municipalities will receive the full collection of the 1.0% of Municipal Sales and Use Tax but must relinquish their participation on the Municipal Development Fund created by Act No. 18. **The Municipality** of Cabo Rojo decided to not be a participating entity of these processes.



16. MUNICIPAL SALES AND USE TAX (CONTINUED)

As of June 30, 2019, **the Municipality** recorded Sales and Use Tax revenues of \$1,803,991 in the General Fund and \$334,738 in the Debt Service Fund corresponding to the Municipal Redemption Fund.

17. COMMITMENTS AND CONTINGENCIES

A. Claims and Judgments

The Municipality is defendant in various legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Act No. 104 of June 25, 1995, as amended, persons are authorized to sue **the Municipality** only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of actions. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, **the Municipality** may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

At the close of fiscal year 2018-2019, **the Municipality** faced around 1 lawsuit against it that amounted to \$409,700. However, the lawyers in charge of these legal cases confirmed that there is little or no concern that any of these cases will fail against **the Municipality** and entail a disbursement of municipal funds.

Taking into account the claims already mentioned, and based on the advice of legal counsel, **the Municipality** believes that the potential of additional claims not covered by insurance will not materially affect the financial demands, results of operations and cash flow condition of the entity as of June 30, 2019.

B. Federal Grants

The Municipality receives financial assistance from the Federal and State governments in form of grants or entitlements. Projects financed by Federal and State Grants are subject to financial and compliance audits by grantors and other governmental agencies in order to determine its expenditures to comply with the conditions of such grants. These audits could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. It is **the Municipality's** opinion that such disallowance, if any, will not have a material adverse effect on the financial position of **the Municipality**.

C. Regarding Going Concern Commonwealth of Puerto Rico

The Municipality is an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and its component units currently has severe fiscal, economic, and liquidity situations, including accumulated net position and fund balances deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality receives substantial operating funds from the Commonwealth in the form of intergovernmental subsidies. The Commonwealth and its component units are currently under the supervision of a Federal Oversight Board and are implementing fiscals' plans approved by the Board to remediate their situation. The financial statements of the Municipality do not include any adjustment that might result from these uncertainties.



18. FUND BALANCE

As of June 30, 2019, the fund balance (deficit) classifications are as follows:

Fund Balances (Deficit)	General Fund	Debt Services Fund	Commonwealth Legislature Resolution	Other Governmental Fund	Total
<i>Assigned to:</i>					
Capital Project	\$ 10,071	-	3,254,166	1,080,987	4,345,224
<i>Restricted for:</i>					
General Government	1,995,942	-	-	-	1,995,942
Urban and Economic Development	795,596	-	1,157,664	639,890	2,593,150
Public Safety	649,808	-	-	49,242	699,050
Health Sanitation	525,122	-	-	-	525,122
Culture, Recreation and Education	436,882	-	-	196,969	633,851
Public Housing and Welfare	382,212	-	-	638,328	1,020,540
Debt Service	-	1,374,695	-	-	1,374,695
Unassigned	(9,774,797)	-	-	-	(9,774,797)
Total Fund Balance (Deficit)	<u>\$(4,979,164)</u>	<u>1,374,695</u>	<u>4,411,830</u>	<u>2,605,416</u>	<u>3,412,777</u>

19. SUBSEQUENT EVENTS

Municipal Deposits on Government Development Bank (GDB)

On July 14, 2017, the Financial Oversight and Management Board for Puerto Rico (Oversight Board), created by Congress, authorized the Government Development Bank for Puerto Rico (GDB) to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement (RSA).

The Oversight Board's decision was in response to the Fiscal Agency and Financial Advisory Authority (FAFAA) request, dated June 30, 2017, in which the agency noted that the proposed restructuring, along with certain related settlements contemplated by the RSA, will result in an efficient wind down of GDB's operations and a comprehensive financial restructuring of GDB's obligations. FAFAA noted further that by proceeding under Title VI of PROMESA with the requisite creditor support, GDB believes that it will realize its objective of maximizing value for its stakeholders, while avoiding the delay, expense and uncertainty associated with litigation.

The RSA provides for the organized and consensual restructuring of a substantial portion of GDB's liabilities, including GDB public bonds, deposit claims by municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees (Participating Bond Claims). In exchange for releasing GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the Issuer).

Due to the effects of the hurricanes, loss of communication, impairment to municipal revenues and liquidity, and the impact to GDB real estate owned assets, FAFAA, GDB and the RSA Requisite Bondholders agreed on revising certain milestones. They agreed on certain amendments to the RSA structure (Amended RSA) resulting in:



19. SUBSEQUENT EVENTS (CONTINUED)

- Simplified structure (one security offered to Participating Bond Claims instead of original three).
- All municipal deposits will be applied against corresponding municipal loans to mitigate near-term impact of hurricanes.

Related to the municipalities, the amendment to the RSA provides that, upon consummation of the transaction, each municipality will be authorized to apply the full amount of deposits held at GDB against the balance of any loan owed by such municipality to GDB. Additionally, to provide municipalities with immediate liquidity, the amendment to the RSA gives each municipality the opportunity to receive immediate payment, before consummation of the transaction, of 55% of such municipality's undisbursed certified Excess CAE held at GDB in exchange for releases. The other 45% should be apply against the balance of any loan owed by such municipality to GDB.

On August 9, 2018 GDB and AAFAF used the Solicitation Statement to commence the solicitation of votes seeking creditor approval of the Qualifying Modification under Title VI of PROMESA. In September 2018, the Solicitation was concluded with Eligible Voters holding over 50% of the outstanding principal amount of outstanding Participation Bonds in each Pool voting to approve the Qualifying Modification; and Eligible Voters over 66% of the outstanding principal amount of outstanding Participating Bonds in each Pool that voted in the Solicitation voting to approve the Qualifying Modification.

On November 6, 2018, the United States District Court for the District of Puerto Rico held the hearing to consider the Approval Application and, after considering arguments, filings and evidence regarding approval, approved the Qualifying Modification on the record, and entered the order approving the Qualifying Modification on November 7, 2018.

The amount of surplus balances of funds from loans presented by **the Municipality** as of June 30, 2019 totals \$853,018 which are recognized as part of the cash with fiscal agent in the other governmental funds section.

Hurricanes Irma and María

On September 6, 2017 and September 20, 2017, Hurricanes Irma and María devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure damages disrupting the daily lives of 3.4 million of residents, including housing, infrastructure, environment, safety, health and social services, and government and municipal operations. The response to the catastrophe by the U.S. and Federal agencies has become one of the largest and most complex disaster recovery efforts in U.S. history. The eye of Hurricane Irma, a powerful Category 5 storm, skirts north of San Juan, Puerto Rico experiences a deluge and 100-mile-per-hour gusts but it avoids the worst of the storm's effects. Irma kills four people. It cuts off power to about two-thirds of the island's electricity customers, and about 34 percent of its population loses access to water.

María was the most devastating hurricane to hit Puerto Rico in nearly a century. Many lives were lost, homes and businesses suffered enormous damage, most crops and other agricultural assets were wiped out, and a significant part of the island's infrastructure was severely damaged: knocked out electric power across the entire island and triggered heavy flooding after estimated 30 inches of rain, severe destruction of the housing infrastructure, commercial and public buildings damaged and devastated agriculture and tourism. After María, only 5% of cell service, 44% of potable water since there are no electric power, and gas stations are destroyed in 60%. Puerto Rico authorities have estimated in \$94 billion to cover damages from insurances and assignments required from the Congress, part of which was approved by them.

Following the hurricanes, the initial job losses in Puerto Rico totaled about 4%, though employment is beginning to improve somewhat. This loss is considerably steeper than what has typically been experienced after most major natural disasters that have hit the United States. That being said, domestic air passenger data suggest that from September through November more than 150,000 people left Puerto Rico, net of arrivals. Looking ahead, recovery will be affected by a variety of factors, most notably the degree of out-migration, the level of external aid the economy receives, and the effectiveness of fiscal and other reforms in Puerto Rico.



19. SUBSEQUENT EVENTS (CONTINUED)

In response to these events and seeking a quick recovery, immediately after the emergency, the municipalities of Puerto Rico were declared disaster zones and began receiving financial assistance from FEMA. In order to qualify to receive these funds, the municipalities must present evidence of expenses since they are provided under a system of reimbursement of expenses incurred. The expenses that qualify for the initial phase of recovery are those that are related to the categories established by FEMA.

These expenses are broken down into categories A, B, C, D, E, F and G. The recovery processes are concentrated within Category A (Debris removal) and Category B (Emergency Protective Measures). Between these two categories, as of June 30, 2019, the Municipality had managed to document expenses amounting to \$2,213,226; of which \$4,697,107 had been received and were pending receipt of \$962,056.

Regarding the categories from C to G (Permanent Works), these projects are projected to begin at the end of fiscal year 2018-2019. Based on the projects that have been submitted to FEMA, the municipal administration estimates that \$42,500,000 will be received to complete them within a period of five years.

Community Disaster Loan (CDL) Program

The Community Disaster Loan (CDL) Program provides operational funding to help local governments that have incurred a significant loss in revenue, due to a major disaster, that has or will adversely affect their ability to provide essential municipal services. The Stafford Act, Section 417, subparts 206.360 through 206.367, authorizes FEMA to provide direct loans to local governments who have suffered a substantial loss of tax and other revenues, as a result of a major disaster, and which can demonstrate a need for Federal assistance in order to perform their governmental functions. Local governments must show a loss of greater than 5% of tax and other revenues for the current or succeeding year. Loan amounts may not exceed 25% of the operating budget of the local government for the fiscal year in which the disaster occurred, or the cumulative estimated revenue loss for the fiscal year of the disaster and the subsequent three fiscal years, but shall not exceed \$5 million.

Impact of COVID-19 on the Commonwealth's and Municipal Operations

Coronavirus pandemic disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. Most people infected with the COVID-19 virus will experience mild to moderate respiratory illness and will recover without requiring special treatment. Older people and those with underlying medical problems are more likely to develop serious illness. The world-wide spread of the pandemic is having serious economic implications in numerous sectors of the economy, including most business, governmental entities and non-profit organizations in the United State of America and Puerto Rico. The impact on these sectors will depend on certain developments, including the duration and future spread of the outbreak.

As part of various measure to contain the spread in Puerto Rico, on March 15, 2020 the Governor of the Commonwealth of Puerto Rico issued the Executive Order OE-2020-023 which, among other things, ordered schools, non-essential business, nonprofit entities and Commonwealth and Municipal governmental organizations to close. In addition, it imposed an overnight curfew from 9:00 p.m. to 5:00 a.m. The original executive order is applicable until March 30, 2020. On March 26, 2020, the governor announced the extension of the executive order applicability period from March 31, 2020 to April 12, 2020 and the extension of the overnight curfew from 7:00 p.m. to 5:00 a.m.

As a result of the spread of the outbreak and these executive order measures, the Municipality expected a negative impact on its operating result on next fiscal year and thereafter. Most significant revenues including property taxes, municipal license taxes, and sales and use taxes are expected to suffer reductions, which can affect **the Municipality's** ability to perform public services.

Businesses, the Commonwealth and Municipal government, and people of Puerto Rico are expecting financial assistance in order to alleviate the economic impact of the coronavirus. On March 23, 2020, the Commonwealth government announced financial package on this matter. In addition, a federal assistance package is in process to be developed and approved by the federal government.



19. SUBSEQUENT EVENTS (CONTINUED)

Due to the uncertainty of this matter the extent to which COVID-19 may impact **the Municipality's** future financial condition or results of operations is undeterminable. That is why we submitted the report to The Clearing House after March 31, 2020.

Conclusion

The Municipality evaluated additional subsequent events through August 6, 2020, which is the date the financial statements are available to be issued. No additional events are occurred subsequent to the statement of net position and the balance sheet date the financial statement was available to be issued, that would require additional adjustment to, or disclosure in the Financial Statements.

20. TAX ABATEMENTS

As of June 30, 2017, **the Municipality** implemented disclosure required by Statement No. 77 of the Governmental Accounting Standard Board (GASB).

Governments may use tax abatements to reduce the imposition of taxes to private entities in exchange for a given set of objectives, including economic development, urban renewal, promoting industries, and others. A tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Agreements entered into by the Municipality

Under the Autonomous Municipalities of the Commonwealth of Puerto Rico Act of 1991, municipal governments have the authority to impose certain municipal taxes on their territorial jurisdiction. In this way, the main source of revenue in the municipality's rests in Municipal Property Tax of Private Property, Municipal Property Tax of Real Property, Municipal License Tax, Construction Excise Tax, and Municipal Sales and Use Tax.

In relation to Statement No. 77 the Municipalities can be authorized by Municipal Legislatures to enter into property tax, municipal license tax, construction excise tax, and sale tax abatement agreements for the purposes previously disclosed.

During the fiscal year 2018-2019 **the Municipality** of Cabo Rojo did not abated taxes which were material for financial reporting purposes.

Agreements entered into by the Commonwealth of P.R.

In accordance with GASB Statement No. 77, the notes to the financial statements should also disclose the abatement agreements imposed by the State Government of P.R. that have a direct effect of reducing the municipal tax revenues.

As of June 30, 2019, **the Municipality** of Cabo Rojo abated the following taxes based on the imposition of state laws governing the agreements by the Commonwealth of Puerto Rico:



20. TAX ABATEMENTS (CONTINUED)

A. Property Tax Abatements

• Real State Property

- **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) “...shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities.”
 - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to Municipality of Cabo Rojo.

Action in exchange: Under the aforementioned Act. No. 83 - 1941 it was also established what was known as “CELI” or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

Note: Under Act No. 51-2014 “CELI’s” agreement was amended to allow PREPA to charge municipalities for energy consumption on income generating properties. But, PREPA’s exemption of paying taxes on property and sales, remains.

Estimated amount not collected due to tax abated during FY 2018-2019: \$4,305,328

- **Act. No. 83 -1991 – Section 2.02** – Under this Act, “the owners of property for residential purposes are hereby exonerated from the payment of the special surtax and the basic tax levied ... in an amount equal to the tax levied on said properties up to fifteen thousand (15,000) dollars of the appraised value of the property...”

Action in exchange: “The Secretary of the Treasury shall compensate the corresponding municipalities for uncollected property taxes resulting from the tax exemption provided by Section 2.02. The Secretary of the Treasury shall continue to remit annually to the Government Development Bank for Puerto Rico for the benefit of each municipality, the sum equal to the uncollected amount of said basic tax levied by the municipalities as of August 30, 1991, up to a maximum of two (2) percent, as well as the tax levied for the payment of municipal loans, from the tax exemptions requested up to the 1st of January, 1992, as indicated above.”

Estimated amount not collected due to tax abated during FY 2018-2019: \$13,830,572.

• Personal Property Taxes

- **Act. No. 83 -1991 – Section 5.35** – Under this Act “retailers with net sales under \$150,000 are exempt from the personal property tax for an amount equal to the tax levied on said property up to a valuation of fifty thousand dollars (\$50,000)”.

Action in exchange: None

Estimated amount not collected due to tax abated during FY 2018-2019: \$705,499



20. TAX ABATEMENTS (CONTINUED)

B. Municipal License Tax Abatements

- **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) “...shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities”.
 - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to the Municipality of Cabo Rojo.
 - According on the information provided under Act No. 83, PREPA is hereby exempt of paying taxes or other contributions to the Municipality of Cabo Rojo.

Action in exchange: Under the aforementioned Act. No. 83 -1941 it was also established what was known as “CELI” or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

Estimated amount not collected to tax abated during FY 2018-2019: \$268,555.00

- **All business that qualify under the following laws:**
 - **Act No. 113 – 1974 – Section No. 9** – The services, sales, financial business or any industry or business subject to the patent imposed by authorization of this law when its turnover does not exceed five thousand dollars (\$5,000). Craft workshops, and plastic arts workshops when their annual gross income does not exceed fifty thousand dollars (\$50,000), when they are operated directly by the artisan or artist in the exercise of his trade, even if they had the assistance of more than one craftsman or artist, the wholesale or retail sale is made. Corporations and any communal fund, fund or foundation, created and administered exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals, no part of whose net profits will benefit from a particular shareholder or individual.
 - **Act No. 135 – 2014 – Section No. 8** – According to Article 8 of Tax Benefits for New Businesses created by Young Entrepreneurs, the temporary exemption of municipal patents, new businesses that operate under an agreement will be exempt from the payment of municipal patents during the three (3) economic years starting from the signature of the agreement. The agreement will specify the economic years to which the exemption will apply. To obtain such an exemption, the new business will include a copy of the agreement with the patent form for the years in which the exemption applies.



20. TAX ABATEMENTS (CONTINUED)

- **Act No. 225 – 1995 – Section No. 3** – For the purposes of this law, the following words and phrases shall have the meaning and scope expressed below: Farmer "bona fide". - Means any natural or legal person who during the taxable year for which he claims deductions, exemptions or benefits provided by this law has a current certification issued by the Secretary of Agriculture, in consultation with the Secretary of the Treasury, which certifies that during this year was dedicated to the exploitation of an activity that qualifies as an agricultural business, according to that term is defined in subsection of this section, and derives fifty percent (50%) or more of its gross income from an agricultural business as an operator, owner or lessee, as recorded on your income tax return.
 - **Act No. 249 – 2015 – Section No. 1** – This Act is approved to create a program under which the entire association of residents or councils of holders of condominiums constituted under the laws of Puerto Rico, may regularize their condition of tax exemption before the Department of the Treasury.
 - **Act No. 74 – 2010 – Section No. 3** – Tourism development revenues, as well as dividends or benefits distributed by the exempt business to its shareholders, partners or members and distributions of said income made in liquidation, will be exempt from the payment of taxes on income, in accordance with the following terms and conditions:
 - For any tourist activity not established in Vieques or Culebra, the percentage of Exemption of said income will be up to ninety percent (90%).
 - For all tourist activity established in Vieques or Culebra, the percentage of Exemption of said income will be up to one hundred percent (100%).
 - The exemption will be in force for a period of ten (10) years.

C. Sale Tax Abatements

- **Act No. 83 – 1941 – Section No. 22** – Under this Act the Puerto Rico Electric Power Authority (PREPA) "...shall not be required to pay any state or local taxes or assessments on any property acquired by it or under its jurisdiction, control, possession, or supervision, or on its activities in the operation and maintenance of any undertaking; or on the income derived from any of its undertakings or activities."

Action in exchange: Under the aforementioned Act. No. 83 - 1941 it was also established what was known as "CELI" or compensation in lieu of taxes. Municipalities were exempt of paying the Authority every charge related to energy consumption.

Estimated amount not collected due tax abated during FY 2018-2019: \$537,110.00

REQUIRED SUPPLEMENTARY INFORMATION



	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Property	\$ 9,507,712	9,507,712	8,448,667	(1,059,045)
Municipal license	2,438,827	2,438,827	2,156,317	(282,510)
Sales	1,370,000	1,370,000	1,074,668	(295,332)
Construction excise	328,579	328,579	432,906	104,327
Charges for services	300,000	300,000	646,893	346,893
Intergovernmental	811,642	811,642	9,596	(802,046)
Interest on deposits	15,000	15,000	-	(15,000)
Miscellaneous	740,000	740,000	665,877	(74,123)
Total Revenues	15,511,760	15,511,760	13,434,924	(2,076,836)
Expenditures				
Current:				
General Government	7,235,378	7,235,378	6,451,176	(784,202)
Public Safety	2,771,358	2,771,358	1,731,348	(1,040,010)
Urban and Economic Development	1,655,665	1,655,665	1,422,058	(233,607)
Health and Sanitation	2,275,369	2,275,369	868,946	(1,406,423)
Culture, Recreation and Education	787,786	787,786	707,552	(80,234)
Public Housing and Welfare	786,204	786,204	696,691	(89,513)
Total Expenditures	15,511,760	15,511,760	11,877,771	(3,633,989)
Excess of Revenues (Expenditures)	-	-	1,557,153	1,557,153
Over Expenditures (Revenues)				
Other Financing Sources (Uses)				
Transfers in, available for spending	-	-	1,596,317	1,596,317
Transfers out to other funds	-	-	(1,208,145)	(1,208,145)
Proceed from:				
Issuance of bonds and loans	-	-	5,000,000	5,000,000
LTD restructuring process	-	-	(1,458,320)	(1,458,320)
LTD deposit setoff	-	-	(81,134)	(81,134)
Total Other Financing Sources (Uses)	-	-	3,848,718	3,848,718
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	-	5,405,871	5,405,871



Explanation of differences

Sources / inflows of resources

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 20,031,241
Differences - budget basis to GAAP:	
Net increase (decrease) in receivables	(390,757)
Resources considered revenues for financial reporting but not for budgetary purposes	1,806,324
Resources considered revenues for budgetary but not for financial reporting purposes	(3,527,810)
Total revenues reported on statement of revenues, expenditures and changes in fund balance	17,918,998

Uses / outflows of financial resources

Actual amounts (budgetary basis) from budgetary comparison schedule	9,130,172
Net increase (decrease) in payables	(1,669,133)
Encumbrances recorded as current expenditures for GAAP basis	6,241,350
Resources considered expenditures for budgetary but not expenses for GAAP	3,215,996
Total expenditures reported on statement of revenues, expenditures and changes in fund balance	16,918,385

Excess of revenue and others financial sources over expenditures and other financing uses - general fund GAAP basis	\$ 1,000,613
--	---------------------

1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Control

The Municipality prepares its annual budget for all its operations and activities. Such legally adopted budget is based on expected expenditures by the program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has ten (10) business days, but not later than June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it. If the budgets are not adopted prior to the end of the deadlines refined to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits **the Municipality** to continue doing payments for its operations and other purposes until the new budgets are approved.



1. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

a. Budgetary Control (Continued)

The annual budget may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature. The Municipality's Department of Finance have the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs and among funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the functions/program level (general government, public safety, urban affairs, culture and recreation, health and welfare, urban development, economic development, education, and capital outlays) within the general fund. Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

b. Budgetary Accounting

The Municipality's annual budget is prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received, except in the case of municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as revenue in the following budget year. Borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against **the Municipality**, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying Supplemental Budgetary Comparison Schedule - general fund provides information about the general fund's original budget, its amendments, and the actual results of operations of the general fund under the budgetary basis of accounting for the ensuing fiscal year.

**SUPPLEMENTARY INFORMATION
REQUIRED BY THE U. S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT**

Commonwealth of Puerto Rico
Autonomous Municipality of Cabo Rojo
Supplementary Information
Financial Data Schedule -RQ061
Section 8 - 14.871 Housing Choice Vouchers
June 30, 2019

Balance Sheet

<u>Line Item</u>		<u>Amount</u>
<u>No.</u>	<u>Description</u>	
Assets		
111	Cash - unrestricted	\$ 133,311
113	Cash - other restricted / all other funds	42,127
100	Total Cash	175,438
121	Accounts receivable - PHA projects	2,994
128	Fraud recovery	27,924
128.1	Allowance for doubtful accounts - fraud	(22,670)
120	Total receivables, net of allowance for doubtful accounts	8,248
190	Total Assets	\$ 183,686
Liabilities and Equity		
312	Accounts payable <= 90 Days	20,948
313	Accounts payable > 90 Days	15,308
322	Accrued compensated absences - current portion	12,811
310	Total Current Liabilities	49,067
Non-Current Liabilities		
354	Accrued compensated absences - non current	13,507
350	Total Non-Current Liabilities	13,507
300	Total Liabilities	62,574
Net Position		
511.4	Restricted Net Position	15,501
512.4	Unrestricted Net Position	105,611
513	Total Equity - Net Position	121,112
600	Total Liabilities and Equity/Net Position	\$ 183,686

The accompanying notes are an integral part of this Schedule.

Commonwealth of Puerto Rico
Autonomous Municipality of Cabo Rojo
Supplementary Information
Financial Data Schedule -RQ061
Section 8 - 14.871 Housing Choice Vouchers
For the year ended June 30, 2019

Income Statement

<u>Line Item</u>	<u>No.</u>	<u>Description</u>	<u>Amount</u>
Revenues			
70600-010		HUD PHA operating grants - Housing assistant payments	\$ 480,462
70600-020		HUD PHA operating grants - Ongoing administrative fees	74,164
71100		Investment income - unrestricted	2,192
71400-010		Fraud recovery HAP	555
71400-020		Fraud recovery ADM.	556
71500		Other revenue	65,640
70000		Total Revenue	623,569
Expenses			
91100		Administrative salaries	61,856
91200		Auditing fees	3,000
91500		Employee benefit contributions - administrative	10,624
91600		Office expenses	5,337
91800		Travel expense	46
91900		Other	1,692
91000		Total Operating - Administrative	82,555
96200		Other general expenses	1,236
96210		Compensated absences	13,911
96000		Total other general expenses	15,147
96900		Total operating expenses	97,702
97300-041		Housing assistance payments - portability out	10,329
97300-050		Housing assistance payments - all other	461,840
97350		HAP Portability-In	57,520
90000		Total Expenses	627,391
10000		Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(3,822)

The accompanying notes are an integral part of this Schedule.

Commonwealth of Puerto Rico
Autonomous Municipality of Cabo Rojo
Supplementary Information
Financial Data Schedule -RQ061
Section 8 - 14.871 Housing Choice Vouchers
For the year ended June 30, 2019

<u>Line Item</u>	<u>No.</u>	<u>Description</u>	<u>Amount</u>
Line Item 11170 Details (readonly mode)			
Line Item #		Description	
11170-001		Administrative Fee Equity - Beginning Balance	\$ 118,281
11170-010		Administrative fee revenue	74,164
11170-040		Investment income	2,192
11170-045		Fraud recovery revenue (50% total)	556
11170-050		Other revenue (portability in revenue received from other PHA)	65,640
11170-060		Total Admin Fee Revenues	142,552
11170-080		Total operating expenses	97,702
11170-095		Housing assistance payment - Portability in	57,520
11170-110		Total Expenses	155,222
11170-002		Net Administrative Fee	(12,670)
11170-003		Administrative Fee Equity - Ending Balance	\$ 105,611
11170-006		Post-2003 Administrative Fee Reserves	105,611
Line Item 11180 Details (readonly mode)			
Line Item #		Description	
11180-001		Housing Assistance Payments Equity - Beg. Balance	\$ 6,653
11180-010		Housing assistance payment revenue	480,462
11180-015		Fraud recovery revenue	555
11180-030		Total Housing Assistance Payments Revenues	481,017
11180-080		Housing assistance payments	472,169
11180-100		Total Housing Assistance Payments Expenses	472,169
11180-002		Net Housing Assistance Payments	8,848
11180-003		Housing Assistance Payments Equity - Ending Balance	15,501
		Total Equity - Ending Balance:	\$ 121,112

The accompanying notes are an integral part of this Schedule.

Commonwealth of Puerto Rico
Autonomous Municipality of Cabo Rojo
Supplementary Information
Financial Data Schedule -RQ061
Section 8 - 14.871 Housing Choice Vouchers
For the year ended June 30, 2019

Memo Account Information

<u>Line</u> <u>Item</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
Net Position		
11030	Beginning Equity	124,934
11170	Administrative Fee Equity	\$ 105,611
11180	Housing Assistance Payments Equity	\$ 15,501
11190	Unit Months Available	1284
11210	Number of Unit Months Leased	1247

The accompanying notes are an integral part of this Schedule.

Commonwealth of Puerto Rico
Autonomous Municipality of Cabo Rojo
Note to Supplementary Information
Financial Data Schedule -RQ061
Section 8 - 14.871 Housing Choice Vouchers
For the year ended June 30, 2019

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through to Sub-recipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)				
Section 8 Housing Choice Vouchers Program	14.871	-	\$	641,803
Community Development Block Grants/ Entitlement Grants	14.218	-		931,785
Passed-through of Commonwealth of Puerto Rico Department of : Community Development Block Grants/State's Program and Non-Entitlement Grants - Disaster Recovery Housing Department	14.228	N/AV		398,200
Passed-through of Commonwealth of Puerto Rico Department of Family: Emergency Solution Grant Program	14.231	N/AV		33,273
U.S. Department of Health and Human Services				
Passed-through of Commonwealth of Puerto Rico Department of Family: Child Care and Development Grant	93.575	660433481		96,472
Passed-through the Office of the Elderly: Special Programs for the Aging-Title III, C-1 & C-2 Nutrition Services (Cluster)	93.045	19190162R2		8,200
Nutrition Services Incentive Program (Cluster)	93.053	19190162R2		46,545
U.S. Department of Agriculture				
Passed-through of Commonwealth of Puerto Rico Department of Education: Child and Adult Care Food Programs	10.558	N/AV		27,141
Department of Homeland Security (DHS)				
Community Disaster Loan	97.030			1,513,896
Pass-Through the Puerto Rico Office of Disaster and Emergencies Administration: Disaster Grants - Public Assistance (Presidentially Declared Disaster)	97.036	FEMA 4339-DR-PR		2,213,226
Total Expenditures of Federal Awards			<u>\$</u>	<u>\$ 5,910,541</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2019**

1. SIGNIFICANT ACCOUNTING POLICIES

- a) The accompanying Schedule of Expenditures of Federal Awards (SEFA) is a summary of the activity of **the Municipality's** federal awards programs presented on a modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
- b) The accompanying SEFA is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- c) Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.
- d) The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. FEDERAL CFDA NUMBER

The Catalog of Federal Domestic Assistance (CFDA) Numbers is a program identification number. The first two digits identify the federal department or agency that administers the program and the last three numbers are assigned by numerical sequence.

3. PASSS-THROUGH ENTITY IDENTIFYING NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. The Uniform Guidance requires the SEFA to include the name of pass-through entity identification number assigned by the pass-through entity for federal awards received as a sub-recipient. Number identified as N/AV are not available.

4. MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

5. INDIRECT COSTS

The Municipality elected not to use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2019.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2019**

6. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GUBERNMENTAL FUNDS

Expenditures of federal awards are reported in the Municipality's Statement of Revenues, Expenditures and changes in Fund Balances – Governmental Fund as follows: Other Governmental Funds \$2,183,419, Disaster Grant \$2,213,226 and Community disaster Loan \$1,513,896.

7. LOANS OF FEDERAL FUNDS

Federal funded loans provided under these programs are included as expenditure on the schedule of expenditure of Federal Awards. Per Uniform Guidance, loans proceed that were received and expended in prior years are not considered federal awards expended (and thus not shown on the schedule of expenditures of federal awards) as those loans do not include continuing compliance requirements other than repayment of the loans. The Municipality is required to identify in the notes to the schedule of expenditures awards the balances outstanding at the end of the period. At June 30, 2019, the Community Disaster Loans Program, CFDA 97.030, had an outstanding loan balance of \$5,000,000.

8. LATENESS OF SINGLE AUDIT REPORTING PACKAGE

The Single Audit reporting package, as defined and required in 2 CFR 200 for fiscal year ended June 30, 2019, could not be submitted in a timely manner because of the effects of the Novel Coronavirus COVID-19. As further discussed in the Municipality's Notes to the Financial Statements included in its audited financial statements for the same year, the Municipality's activities were affected by the Executive Order issued by the Governor of Puerto Rico, and subsequently a waiver was granted by the OMB through the issuance of the memorandum M-20-17.

BETANCOURT & CO PSC

Certified Public Accountants

**INDEPENDENT AUDITOR'S 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***

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, 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 the Business Type Activities, each major fund, and the aggregate remaining fund information of the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico, ("the Municipality") as of and for the year ended June 30, 2019, and the related Notes to the Financial Statements, which collectively comprise the Municipality's Basic Financial Statements, and have issued our report thereon dated September 15, 2020.

We did not express an opinion on the governmental activities because we were unable to obtain sufficient and competent evidential matter related to capital assets, and the Municipality. Our report in the governmental activities has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments top Certain Provisions of ASB Statement 67 and 68 and Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, because the information required for the implementation is not readily available.

The General Fund & Debt Service Fund were qualified because the property taxes by the amount of \$599,661.74 and \$461,769.18 were not collected by the General Fund and Debt Service Fund" respectively within the current period or neither in sixty days after the accounting period. The property taxes were not "measurable and available" within 60 days after June 30, 2019. The "General Fund" and "Debt Services Fund" recorded "Revenue" instead a "Deferred Revenue". The Others Governmental Funds was qualified because we were unable to obtain sufficient evidence related a cash balance retained by AAFAF.

**INDEPENDENT AUDITOR'S 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)**

Going Concern Regarding Commonwealth of Puerto Rico

The accompanying Basic Financial Statements have been prepared assuming that the Municipality will continue as a going concern. The General Fund has incurred in deficits and has experienced further deterioration of its economic condition caused by the Hurricanes Irma and María. As described in Note 17, Management's evaluation of events and conditions are disclosed, and their plans regarding this matter. The Municipality is an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and its components units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balances deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality receives substantial operating funds from the Commonwealth in the form of intergovernmental subsidies. The Commonwealth and its components units are currently under the supervision of a Federal Oversight Board and are implementing fiscals' plans approved by the Board in order to remediate their situation. The financial statements of the Municipality do not include any adjustment that might result from these uncertainties. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

**INDEPENDENT AUDITOR'S 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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001, 2019-002 and 2019-003.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Betancourt & Co PSC

BETANCOURT & CO PSC
Canóvanas, Puerto Rico
September 15, 2020

Stamp No. E408884 of Puerto Rico Society
of Certified Public Accountants has been affixed
to the original of report



BETANCOURT & CO PSC

Certified Public Accountants

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

The Honorable Mayor, Members of the
Municipal Legislature and People of the
Autonomous Municipality of Cabo Rojo
Cabo Rojo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico (the Municipality) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2019. The Municipality's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Going Concern Regarding Commonwealth of Puerto Rico

The accompanying Basic Financial Statements have been prepared assuming that the Municipality will continue as a going concern. The General Fund has incurred in deficits and has experienced further deterioration of its economic condition caused by the Hurricanes Irma and María. As described in Note 17, Management's evaluation of events and conditions are disclosed, and their plans regarding this matter. The Municipality is an instrumentality of the Commonwealth of Puerto Rico (the Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and its components units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balances deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality receives substantial operating funds from the Commonwealth in the form of intergovernmental subsidies. The Commonwealth and its components units are currently under the supervision of a Federal Oversight Board and are implementing fiscals' plans approved by the Board in order to remediate their situation. The financial statements of the Municipality do not include any adjustment that might result from these uncertainties. Our opinions are not modified with respect to this matter.

Management's Responsibility

Management is responsible for compliance with the requirements of Laws, regulations, contracts, and grants applicable to its federal programs.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 Uniform Guidance. 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. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Municipality’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico’s, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Municipality’s Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico’s is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Municipality’s Autonomous Municipality of Cabo Rojo of the Commonwealth of Puerto Rico’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality’s internal control over compliance.

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

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

Report on Internal Control Over Compliance (Continued)

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 requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Purpose of this Report

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.

Betancourt & Co PSC

BETANCOURT & CO PSC
Canóvanas, Puerto Rico
September 15, 2020



Stamp No. E408885 of Puerto Rico Society of Certified Public Accountants has been affixed to the original of report

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Opinion Unit

Governmental Activities	Disclaimer
Business-Type Activities	Unmodified
General Fund	Qualified
Debt Service Fund	Qualified
Commonwealth Legislative Resolutions	Unmodified
FEMA Fund	Unmodified
Other Governmental Funds	Qualified

Internal control over financial reporting:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? Yes No
- Significant deficiencies identified? Yes No

Type of auditors' report issued on compliance for major programs: Unmodified

Any other findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants – Entitle Grants
97.036	Disaster Grants - Huracan Maria
14.871	Section 8 Housing Choice Voucher
97.030	Community Disaster Loan

Dollar threshold used to distinguish between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2019**

Part II - FINANCIAL STATEMENTS FINDINGS

FINDING #2019-001

Category / Requirement

Financial Reporting and Accounting Records Accounting Records – Capital Assets and Subsidiary Ledger

Condition

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable. Except for the disclaimer in relate about the Municipality did not maintain complete, updated and accurate accounting records for the capital assets and its related accumulated depreciation, in the governmental activities, as explained in the finding of prior year, there were no additional findings noted during the fiscal year ended June 30, 2019.

Criteria

Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of August 30, 1991 states that the municipality should maintain updated property accounting records. Also, the GASB Statements No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* require that all capital assets, including infrastructure, must be presented in the Statements of Net Position and that these assets must be depreciated during its useful life. Also, provisions of GASB Statement No. 42, *Accounting and Financial Reporting of Impairments of Capital Assets and for Insurance Recoveries*, requires the Municipality to evaluate prominent events or changes in circumstances affecting capital assets to determine whether an impairment of capital asset has occurred. Furthermore, provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, require that all intangible assets not specifically excluded by its scope provisions be classified as capital assets.

Cause

The Municipality did not maintain an adequate control of the accountability and subsidiary ledger of the capital assets presented in the statement of net position.

Effect

The Municipality is not in compliance with Articles 8.010 (c)(3) and 9.002 of the State Act Number 81 of August 30, 1991 and the Municipality's Governmental Wide Financial Statements do not present fairly, the financial position of the governmental activities, and changes in financial position of the Municipality.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2019**

FINDING #2019-001 (Continued)

Management Response and Corrective Action

The Municipality it will be trying to obtain a CPA firm or Consultant Firm to up date the Capital Assets and Subsidiary Ledger and comply with this requirement.

Implementation Date: June 30, 2021

Responsible Person: Danisa Feliciano - Finance Department Director

2019-002 – Accounting Records – Recognition and Reporting of Net Pension Liability and Postemployment Benefit Other Than Pensions - Material Weakness

Condition

The Municipality has not implemented the requirements of Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68 and Statement No.75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The amount by which this departure would affect the deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Municipality’s governmental activities has not been determined.

Criteria

GASB Statement No. 73 state the accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to employees of the state and local governmental employers and are not within the scope of Statement 68. This statement requires that the Municipality report in its financial statements the net pension liability and related expenses.

GASB Statement No. 75 state the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses /expenditures.

Cause

The Municipality did not have available the Commonwealth’s Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2019

FINDING #2019-002 (Continued)

Effect

The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the government activities, and changes in financial position of the Municipality.

Recommendation

We recommend the Municipality should 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.

Management Response and Corrective Action

The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by these standards.

Implementation Date: Not available at this moment

Responsible Person: Carmen Danisa Feliciano - Finance Department Director

2019-003 – Accounting Records – Recognition and Reporting of Deferred Income of Account Receivable of Property Taxes

Condition

GASB 33 interpretation 3, about the property tax receivable should be collected and available, such time thereafter shall not exceed 60 days to be classified as "income". The liquidation of CRIM (Centro de Recaudaciones de Ingresos Municipales) was calculated on December 2019 and that is over 60 days from June 30, 2019. In "General Fund" and "Debt Service Fund" was recorded "Income" for \$599,661.74 and \$461,796.18 respectively instead "Deferred Income". About the property taxes collected should be available in 60 days from the accounting period to be recorded as "Income".

Criteria

GASB Statement No. 33, property tax receivable should be collected and available to pay liabilities 60 days from the accounting period to be classified as income in the "Governmental Funds Statements". The amount collected was available after 60 days from June 30, 2019.

Cause

The Municipality "General Fund" and "Debt Services Fund" income is not accurate.

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2019**

FINDING #2019-003 (Continued)

Effect

The Municipality's Government Funds does not present fairly the income in the "Governmental Funds Statement".

Recommendation

We recommend the adjustment in the "Governmental Funds Statement" for next year accounting period.

Management Response and Corrective Action

The Municipality will analyze finding.

Implementation Date: Not available at this moment

Responsible Person: Danisa Feliciano - Finance Department Director

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CABO ROJO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2019**

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings noted during the fiscal year ended June 30, 2019

.

**AUTONOMOUS
MUNICIPALITY OF CABO ROJO**
Corrective Action Plan
For the Fiscal Year Ended June 30, 2019



ESTADO LIBRE ASOCIADO DE PUERTO RICO
Municipio Autónomo de Cabo Rojo
OFICINA DE FINANZAS

CEE-SA-2019-14

Program: Financial Reporting and Accounting Records Accounting Records – Capital Assets and Subsidiary Ledger
Period: 07/01/2018 – 06/30/2019
Finding ID#: 2019-001
Questioned Costs: 0

General Finding:

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not determinable.

Comments and Corrective Actions:

The Municipality has adopted a new system to maintain a subsidiary ledger of capital assets with required accounting and related records. A special work was performed for Capital Assets, including infrastructure assets so that assets on the Accounting records are updated.

Implementation Date: June 30, 2021

Responsible Person: Mrs. Carmen D. Feliciano, Finance Department Director

Finance Department Director

March, 15, 2020
Date

**AUTONOMOUS
MUNICIPALITY OF CABO ROJO**
Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

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

Audit Period: July 1, 2018 – June 30, 2019

Original Finding Number: 2019-002

Statement of Concurrence or Nonconcurrence: We concur with the finding.

Corrective Action: The Municipality is closely monitoring the actions of the Commonwealth's
Employees Retirement System Administration in order to make sure to obtain the audited
information required by these standards.

Implementation Date: Not available at this moment



Finance Department Director

March 15, 2020

Date

**AUTONOMOUS
MUNICIPALITY OF CABO ROJO**
Corrective Action Plan
For the Fiscal Year Ended June 30, 2019

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

Audit Period: July 1, 2018 – June 30, 2019

Original Finding Number: 2019-003

Statement of Concurrence or Nonconcurrence: The Municipality will analyze finding.

Corrective Action: The Municipality is in the process of receiving a response to a query from the Government Accounting Standard Board (GASB) regarding this finding. The Municipality does not agree with the interpretation from which this finding arises. Although it is true that the money was not deposited in the general operations account, it is also true that as of June 30, 2019, taxpayers had paid the tax amount that the Municipality is recognizing. The funds are in the hands of the CRIM as a municipal collection agency or as a fiscal agent that collects the taxes that belong to the Municipality. At the time taxpayers pay their debts, these funds already belong to the Municipality, even though they are in the CRIM, they cannot be recognized as revenues of that entity, they are revenues of the Municipality.

Based on this, the Municipality will be analyzing the process it will adopt on the recognition of these existing funds at the end of the year and on the finding presented here.

Implementation Date: Not available at this moment



Finance Department Director

March 25, 2020

Date