

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE BAYAMÓN
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015**

Oficina del Comodoro
de Asesorías Municipales

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

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GERENCIAL Y FISCAL

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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PART I - FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which 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.

Auditors' Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion on Governmental Activities

As discussed in note 17 to the financial statements, management has not recorded the deferred outflows/inflows of resources, and net pension liability in governmental activities and has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that deferred outflows/inflows of resources, and net pension liability attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits, which would increase the deferred outflows/inflows of resources, the liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure would affect the deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Bayamón, as of June 30, 2015, and the changes in the financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of June 30, 2015, and the respective changes in the financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 15 and 58 to 59 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.

Management has omitted required supplementary information related to new pensions standards 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 Governmental Accounting Standard 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States

of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2016, on our consideration of the Municipality of Bayamón's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Bayamón's internal control over financial reporting and compliance.

San Juan, Puerto Rico
February 12, 2016

Ortiz, Rivera, Rivera & Co.

The stamp E210229 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Municipality of Bayamon's (the "Municipality") discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activities, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

During fiscal year ended June 30, 2002, the Municipality implemented the new required financial reporting standards established by Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for the State and Local Governments, issued by the Government Accounting Standards Board (commonly known as GASB 34). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2015, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in years prior to fiscal year ended June 30, 2002.

Because the Management's Discussion and Analysis (MD&A) is designed to focus on the current years activities, resulting changes and currently known facts, we encourage readers to consider the information presented here in conjunction with the Municipality's financial statements (beginning on page 16).

HIGHLIGHTS

Financial Highlights

- The Municipality's net position (total assets less total liabilities) amounted to \$457.8 million at the close of the current fiscal year. This amount represents an increase of \$3.8 million (or 1.0%) from the previous year's net position.
- As of June 30, 2015, the Municipality's General Fund (the primary operating fund) reported a fund balance of \$29.6 million, an increase of \$8.6 million in comparison with the prior year. About 81% of this total amount, \$24.0 million, is available for spending in future years.
- The Municipality's activities revenue decreased \$12.2 million, not considering a loss on disposition of capital assets of \$0.5 million. The results of activities for both fiscal years 2014-15 and 2013-14 produced an increase in net positions of \$3.8 million and \$10.8 million, respectively.
- The total cost of the Municipality's programs amounted to \$200.0 million and \$206.9 million during fiscal year 2014-15 and 2013-14, respectively. This represented a decrease of \$6.9 million (or 3.3%).
- Loans principal payments were \$20.3 million during fiscal year 2014-15. Loan proceeds from new debt issued amounted to \$11.3 million during the same fiscal year. Other long-term liabilities amounted to \$13.1 million at June 30, 2015, for a total long-term debt of \$293.6 million as of same date, as compared to \$302.8 million in prior year.

Municipality Highlights

- During the current year the Municipality continued its initiative for the improvement of roads, bridges and other infrastructure projects all over the city at a cost of \$5.1 million.

- The Municipality continued its investment in sports and recreational facilities (active and passive). During the current year, the investment on these facilities amounted to \$4.4 million, including \$2.8 million in facilities whose construction was in progress at June 30, 2015.
- During the year the Municipality acquired land (through purchases or donations) with a cost or value of \$1.3 million. As of June 30, 2015 the Municipality had land (developed and undeveloped) recorded on books with a cost or value of \$273.0 million, including \$132.1 million of land dedicated to public use (Rights of Way).

USING THIS ANNUAL REPORT

This Discussion and Analysis is required supplementary information to the basic financial statements. It is intended to serve as introduction to the basic financial statement of the Municipality. The basic financial statements include three components: (1) government-wide financial statement, (2) governmental fund financial statements and (3) notes to the financial statements.

This report also contains required supplementary information (budgetary schedule) in addition to the basic financial statements themselves.

The basic financial statements focus on both the Municipality as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major funds) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Figure 1 below summarizes the major features of the Municipality's financial statements.

Figure 1

Major features of the Municipality's Governmental-wide
and Fund Financial Statements

| | Government-wide Statements | Fund Statements |
|---|---|--|
| <i>Scope</i> | <i>The entire Municipality's Government</i> | <i>The activities of the Municipality</i> |
| Required financial statements | Statement of net position Statement of activities | Balance Sheet Statement of revenues, expenditures and changes in fund balances. |
| Accounting basis and measurements focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus. |
| Type of asset/liability information | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included. |
| Type of inflow/outflow information | All revenues and expenses during the year regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and payment is due during the year or soon thereafter. |

Government-wide Financial Statements

Our analysis of the Municipality as a whole begins on page 8. One of the most important questions asked about the Municipality's finances is "Is the Municipality as a whole better off or worst off as a result of the year's activities?". The Statement of Net Position and the Statement of Activities report information about the Municipality as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position (see page 16), for the first time, combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. You can think of the Municipality's net assets as one way to measure the Municipality's financial health, or financial position. In future years, increases or decreases in the Municipality's net asset are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax and municipal license tax bases and the condition of the roads and buildings, among others, to assess the overall health of the Municipality.

The Statement of Activities (see page 17) is focused on both the gross and net cost of various activities which are supported by the Municipality's property tax, municipal license tax, sales and use tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

The Governmental Activities reflects the Municipality's basic services, including the municipal police, public works, garbage disposal, community services and general administration. Property tax, municipal license tax, sales and use tax, state and federal contributions finance most of these services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Governmental Major Fund (see pages 18-19) presentation provides detailed information about the most significant funds, not the Municipality as a whole. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation beside the fund financial statements.

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. These notes to the financial statements can be found starting on page 23.

Infrastructure Assets

Historically a government's largest group of assets (infrastructure-roads, bridges, drainage systems, underground pipes, etc.) had not been reported nor depreciated in governmental financial statements. The new statement (GASB 34) requires that these assets be valued and reported within the Governmental column of the Government-wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the alternative method) which periodically (at least every third year), by category, measures and demonstrate its maintenance of locally established level of service standards, the government may record its cost of maintenance in lieu of depreciation. Because the Municipality is not planning to acquire, during a short period of time, an asset management system which a) would allow the election to use the alternative method, and b) will provide valuable management information, it elected to implement the depreciation method, and will monitor and consider, over time, a possible conversion to the alternative method.

GOVERNMENT- WIDE STATEMENT

Statement of Net Position

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, assets exceeded liabilities by \$457.8 million at the close of the most recent fiscal year. The following table reflects the condensed Statement of Net Position compared to prior year.

Table 1
Summary of Net Position
(in millions)

| | <i>Governmental Activities</i> | |
|---|--------------------------------|-----------------------|
| | <u>2015</u> | <u>2014</u> |
| Current and other assets | 142.1 | \$126.4 |
| Capital assets | <u>674.7</u> | <u>685.0</u> |
| Total assets | <u>\$816.8</u> | <u>\$811.4</u> |
| Current and other liabilities | 65.4 | \$54.6 |
| Long-term debt outstanding | <u>293.6</u> | <u>302.8</u> |
| Total liabilities | <u>\$359.0</u> | <u>\$357.4</u> |
| Net Position: | | |
| Invested in capital assets, net of debt | 408.8 | \$407.5 |
| Restricted | 46.5 | 49.0 |
| Unrestricted | <u>2.5</u> | <u>(2.5)</u> |
| Total net position | <u>\$457.8</u> | <u>\$454.0</u> |

For more detailed information see the Statement of Net Position (page 16).

By far the largest portion of the Municipality's net position reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to 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 other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Municipality's net position (10.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Municipality's ongoing obligations to residents and creditors.

The Municipality's net position increased by \$3.8 million during the current fiscal year. Such increase was mainly due to the net effect of an increase in current assets and a decrease in long-term debt.

Statement of Activities

The following schedule compares the revenues and expenses for the current and previous fiscal year.

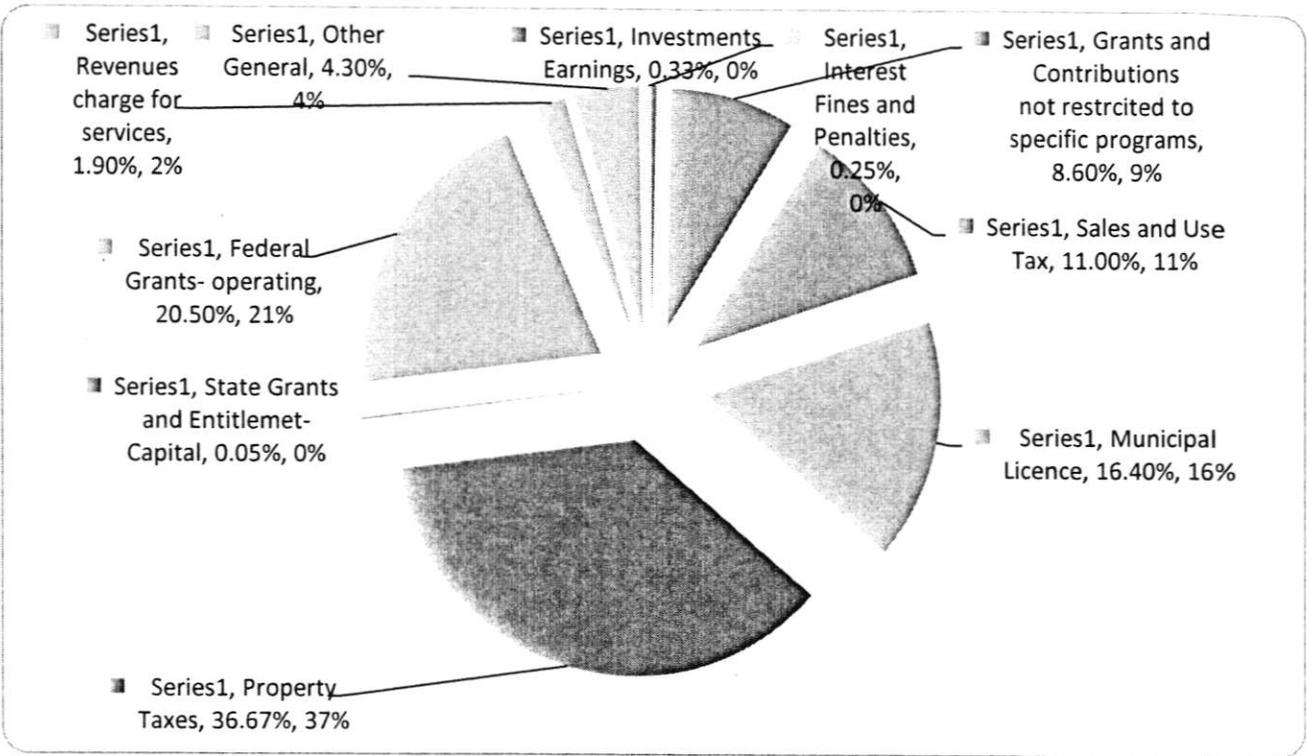
Table 2
Changes in Net Position
(in millions)

| | <i>Governmental Activities</i> | |
|--|--------------------------------|----------------|
| | <u>2015</u> | <u>2014</u> |
| Revenues | | |
| Program Revenues: | | |
| Charges for services | 3.8 | \$6.6 |
| Federal grants-operating | 41.9 | 46.0 |
| State grants and entitlements-capital | 0.1 | 0.2 |
| General Revenues: | | |
| Property Taxes | 74.9 | 72.2 |
| Municipal license tax | 33.5 | 32.7 |
| Sales and use tax | 23.3 | 23.5 |
| Grants and contributions not restricted to specific programs | 17.5 | 17.6 |
| Investment Earnings | 0.0 | 7.2 |
| Interest fines and penalties | 0.5 | 0.8 |
| Other general revenues | <u>8.8</u> | <u>9.7</u> |
| Total Revenues | <u>204.3</u> | <u>\$216.5</u> |
| Expenses | | |
| Program expenses: | | |
| General Government | 74.3 | \$83.5 |
| Public safety | 10.2 | 10.7 |
| Public Works | 40.7 | 48.0 |
| Culture | 0.7 | 0.6 |
| Recreation | 8.8 | 9.0 |
| Health and welfare | 49.6 | 38.0 |
| Education | 4.0 | 7.7 |
| Interest on long-term debt | <u>11.7</u> | <u>9.6</u> |
| Total Expenses | <u>200.0</u> | <u>\$206.9</u> |
| Excess before special items | 4.3 | 9.6 |
| Gain (Loss) on disposition of capital assets | <u>(0.5)</u> | <u>1.2</u> |
| Increase in Net Position | <u>\$3.8</u> | <u>\$10.8</u> |

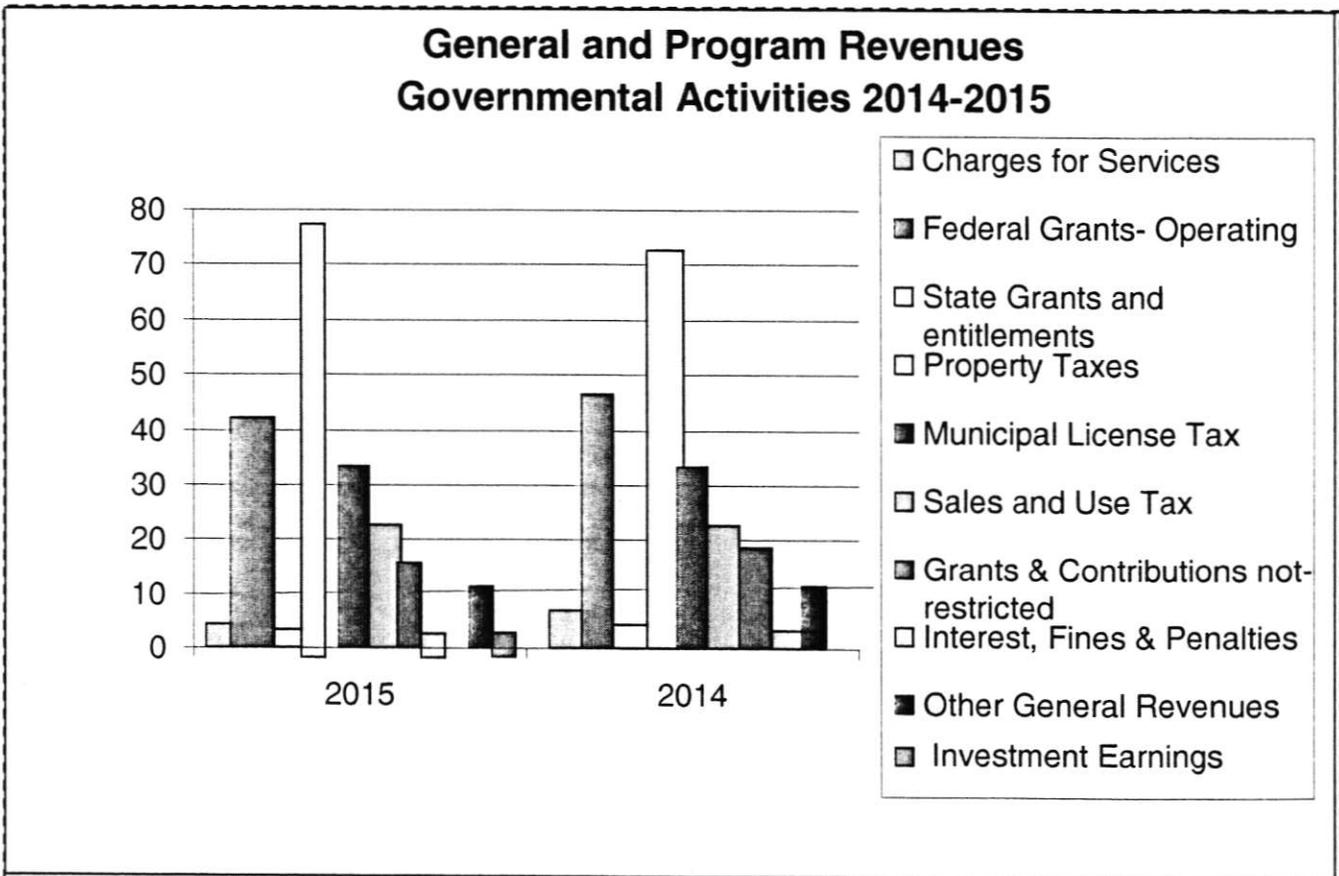
Revenues

Total revenues decreased by \$12.2 million. Revenues controlled by the Municipality (property taxes, municipal license tax, and sale and use tax) increased \$3.3 million which is the result of normal economic environment. Program revenues decreased \$7.0 million and other revenues decreased \$8.5 million mainly due to investment earnings of \$7.2 million during the previous year.

Revenues by Source- Governmental Activities 2014-2015



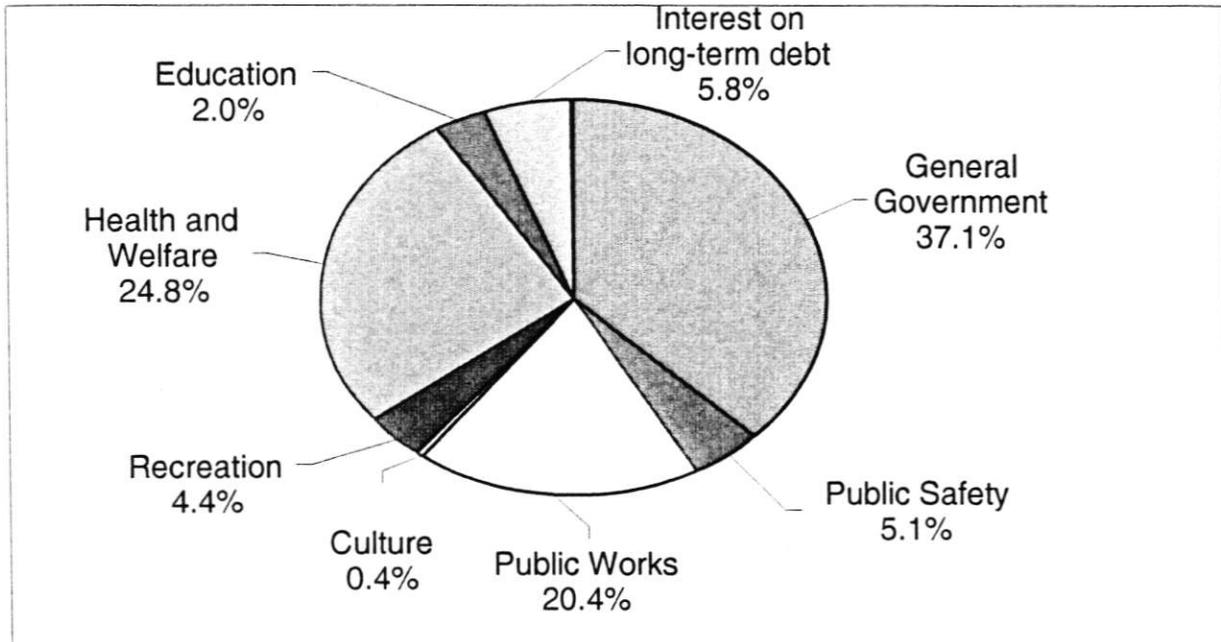
General and Program Revenues Governmental Activities 2014-2015



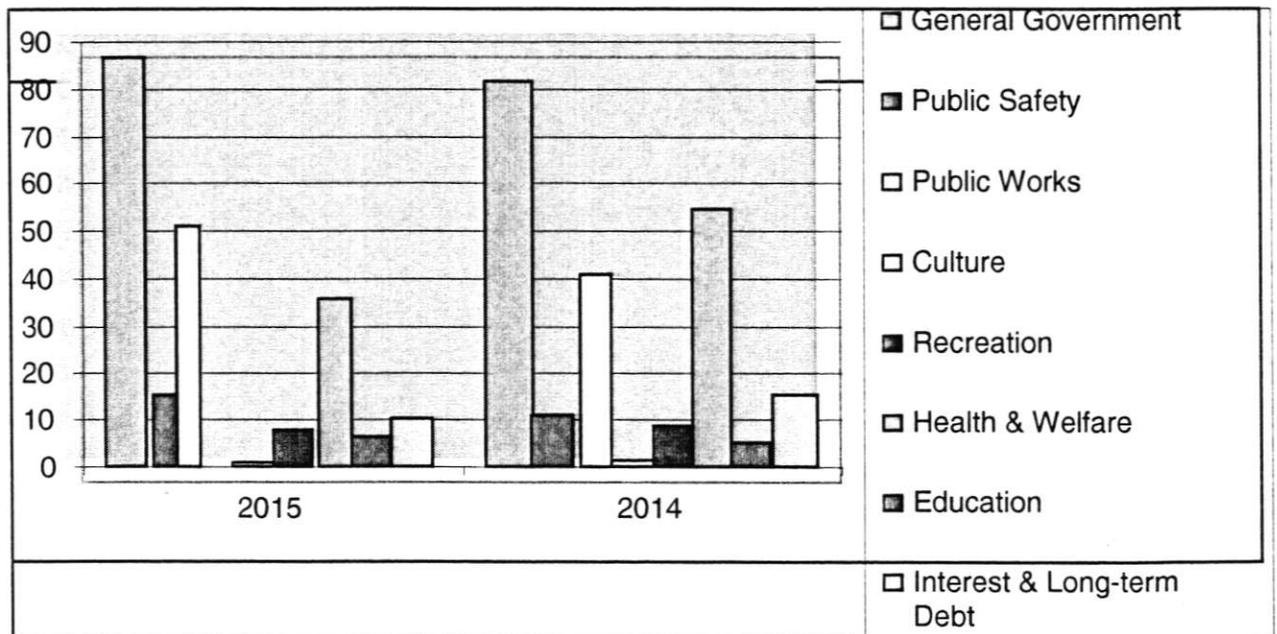
Expenses

Total cost of all programs and services decreased by \$6.9 million, mainly due to an increase in Health and Welfare expenditures (\$11.6 million) and a decrease in General Government, public works and education expenditures (\$20.3 million) which for the most part, reflects compliance with budget controls. Interest paid on long-term debt increased \$2.1 million.

**Program Expenses
Governmental Activities 2014-15**



**Program Expenses
Governmental Activities 2014-2015**



THE MUNICIPALITY FUNDS

Governmental Fund

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on pages 18 and 19) reported a combined fund balance of \$79.8 million which is 6.3% lower than the beginning of the year (\$75.1 million). This increase was the net result of an increase in the Capital Project Fund Balance (\$0.9 million), the Debt Service balance (\$1.5 million) and the HHS Program Balance (\$1.2 million) and an increase in the General Fund balance (\$7.7 million), HUD Program Balance (\$0.2 million), and the Other Governmental Funds Balance (\$0.4 million). The Capital Project Fund reflects loan proceeds as financing sources and capital expenditures (which are reflected in the current financial resource-based Fund Financial Statements) as a spending of a portion of available fund balances at the beginning of the year (see page 19).

Budgetary Highlights

During the current year, the Municipal Legislature revised the Municipality's budget several times increasing the original budget by \$7.2 million (see page 58 for budget to actual comparisons). The current year operations resulted in \$5.7 million of excess revenues over expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Municipality had \$674.7 million invested in a variety of capital assets, as reflected in the following table, which represents a net decrease (additions less retirements and depreciation) of \$10.3 million or 1.5% from the end of last year.

Table 3
Capital Assets at Year-end
(Net of Depreciation, in millions)

| | <i>Governmental Activities</i> | |
|----------------------------|--------------------------------|----------------|
| | <u>2015</u> | <u>2014</u> |
| Land | \$273.0 | \$271.7 |
| Construction in progress | 25.6 | 22.1 |
| Artwork | 3.1 | 3.2 |
| Buildings and improvements | 255.2 | 261.0 |
| Furniture and fixture | 0.5 | 0.5 |
| Vehicles and equipment | 8.2 | 8.7 |
| Infrastructure | <u>109.1</u> | <u>117.8</u> |
| Totals | <u>\$674.7</u> | <u>\$685.0</u> |

Table 4
Change in Capital Assets
(in millions)

| | Governmental Activities |
|-----------------------|------------------------------------|
| Beginning balance | \$685.0 |
| Additions | 14.0 |
| Retirements | |
| CWIP | (0.2) |
| Other | (2.5) |
| Depreciation | (23.5) |
| Retirements * | <u>1.9</u> |
| Ending balance | <u>\$674.7</u> |

* Reduction in accumulated depreciation related to retirements

The retirements in the construction work-in-progress is equally reflected as an addition to Capital Assets. This year's major additions included (in millions):

| | |
|---|-------|
| Roads, bridges and other infrastructure improvements | \$5.1 |
| Sports & recreational facilities (active and passive) | 4.4 |
| Land | 1.3 |
| Vehicles and Equipment | 1.5 |

Debt Outstanding

As of year-end, the Municipality had \$293.6 million in debt (bonds, notes and other long-term debts) outstanding compared to \$302.8 million last year, a decrease of 3% (considering new borrowing and debt retirement).

Table 5
Outstanding Debt at Year-end
(in millions)

| | Governmental Activities | |
|--------------------------|--------------------------------|-----------------------|
| | 2015 | 2014 |
| General obligation bonds | \$246.4 | \$256.2 |
| Credit Lines | 11.6 | 8.9 |
| Notes payables – CRIM | 19.5 | 3.1 |
| Note payable – HUD | 2.9 | 21.3 |
| Due to CRIM | 0.0 | 0.1 |
| Claims and judgments | 0.8 | 0.8 |
| Compensated absences | <u>12.4</u> | <u>12.4</u> |
| Totals | <u>\$293.6</u> | <u>\$302.8</u> |

New bonds in the amount of \$8.6 million were issued during the year. This amount will, mainly, finance improvements to roads and other infrastructure.

A credit line of \$2.5 million represents advances from the Government Development Bank for Puerto Rico guaranteed with certificates of deposits with interest at .14% over the interest rate paid in the certificates of deposits. The proceeds of these advances are being used to acquire properties within the municipality. Another credit line of \$7.2 million represents a line of credit with the Government Development Bank for the development of a Hotel in the facilities of "Parque de las Ciencias". The interest rate is variable prime plus 1.5% with a minimum of 6% payable at

maturity. Another credit line with a balance due of \$1.9 million at year end was obtained from 'Banco Popular de Puerto Rico for the development of a parking lot in the facilities of " Parque de las Ciencias" .

A note payable (CRIM Law 42) with a balance due of \$1.3 million represents a repayment agreement with the Government Development Bank and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The repayment agreement is due in 2032. Another note payable (CRIM Law 146) with a balance due of \$1.6 million represents a financing agreement with CRIM to finance delinquent property tax accounts sold to private investors. The financial agreement is due in 2032.

At June 30, 2015, a note payable with a balance due of \$19.5 million to the U.S. Department of Housing and Urban Development is due in August, 2024.

The Municipality levies an annual special tax of 2.75% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality plus the balance of the special ad valorem taxes in the debt service fund. The outstanding general obligation debt of the Municipality amounted to \$246.4 million and is below legal limitation.

More detailed information about the Municipality's long-term debts is presented in note 15 to the financial statement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, sales and use taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2015 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2015-16. Amounts available for appropriations (revenues) in the General Fund Budget are \$125.7 million, which is \$0.3 million higher than the budget for fiscal year 2014-15. Municipal license taxes and other local taxes and charges for services, licenses and permits are expected to provide the revenues necessary to finance programs we currently offer. Budgeted expenditures are expected to be exceeded by budgeted revenues.

If those estimates are realized, the Municipality's budgetary General Fund balance is expected to be the same or to increase modestly by the close of fiscal year 2015-16.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 3rd floor of the City Hall, State Road #2, P.O. Box 1588, Bayamón, Puerto Rico 00956-61.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

| | Governmental Activities |
|---|------------------------------------|
| Cash and cash equivalents (Notes 2 and 4) | \$ 66,359,811 |
| Cash with fiscal agent (Notes 2 and 4) | 39,612,077 |
| Certificates of deposit (Notes 2 and 4) | 9,132,159 |
| Accounts receivable: | |
| Property taxes (Note 5) | 2,225,732 |
| Municipal license taxes (Note 6) | 313,670 |
| Rent, licenses, and permits | 573,541 |
| Other | 1,751,716 |
| Note receivable (Note 14) | 7,200,000 |
| Due from other agencies (Note 8) | 14,386,632 |
| Inventories (Note 2) | 492,451 |
| Capital assets, net (Note 10) | 674,725,349 |
| Total assets | 816,773,138 |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Liabilities

| | |
|---|-------------|
| Account payable and accrued liabilities | 5,454,511 |
| Due to other agencies (Note 11) | 22,100,699 |
| Accrued interest | 12,166,839 |
| Noncurrent liability (Note 14): | |
| Due within one year | 21,599,860 |
| Due in more than one year | 271,959,890 |
| Total liabilities | 333,281,799 |

Deferred Inflows of Resources (Notes 6 and 12)

| | |
|-------------------------------------|------------|
| Municipal license tax | 25,568,934 |
| Federal government | 126,455 |
| Total deferred inflows of resources | 25,695,389 |

Net Position

| | |
|---|----------------|
| Investment in capital assets, net of related debt | 408,822,959 |
| Restricted for: | |
| Debt service | 33,569,675 |
| Capital projects | 12,960,542 |
| Unrestricted | 2,442,774 |
| Total net position | \$ 457,795,950 |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|--|-----------------------|---------------------------------|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| General government | \$ 74,326,681 | \$ 3,822,202 | \$ - | \$ - | \$ (70,504,479) |
| Public safety | 10,198,970 | | | | (10,198,970) |
| Public works | 40,630,493 | | | 76,707 | (40,553,786) |
| Culture | 684,990 | | | | (684,990) |
| Recreation | 8,753,872 | | | | (8,753,872) |
| Health and welfare | 49,565,701 | | 41,854,556 | | (7,711,145) |
| Education | 4,033,801 | | | | (4,033,801) |
| Interest on long-term debt | 11,704,045 | | | | (11,704,045) |
| Total | \$ 199,898,553 | \$ 3,822,202 | \$ 41,854,556 | \$ 76,707 | (154,145,088) |
| General revenues: | | | | | |
| Property taxes (Note 5) | | | | | 74,877,513 |
| Municipal license taxes (Note 6) | | | | | 33,468,411 |
| Sales and use taxes (Note 7) | | | | | 23,253,347 |
| Grants and contributions not restricted to specific programs | | | | | 17,557,016 |
| Interest, fines, and penalties | | | | | 538,581 |
| Miscellaneous | | | | | 8,798,637 |
| Loss on disposition of capital assets | | | | | (565,687) |
| Total general revenues | | | | | 157,927,818 |
| Change in net position | | | | | 3,782,730 |
| Net position at beginning of year | | | | | 454,013,220 |
| Net position at end of year | | | | | \$ 457,795,950 |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMON
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2015**

| <u>Assets</u> | <u>General</u> | <u>Housing and Urban Development Programs</u> | <u>Health and Human Services Programs</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|---|-------------------------|----------------------------|---|---|
| Cash and cash equivalents (Notes 2 and 4) | \$54,446,152 | \$ 1,278,403 | \$ 2,102,439 | \$ - | \$ 6,265,636 | \$ 2,267,181 | \$ 66,359,811 |
| Cash with fiscal agent (Notes 2 and 4) | | | | 31,343,943 | 8,268,134 | | 39,612,077 |
| Certificates of deposits (Notes 2 and 4) | 8,782,159 | 350,000 | | | | | 9,132,159 |
| Accounts receivable: | | | | | | | |
| Property taxes (Note 5) | | | | 2,225,732 | | | 2,225,732 |
| Municipal license taxes (Note 6) | 313,670 | | | | | | 313,670 |
| Sales and use taxes (Note 7) | | | | | | | - |
| Rent, licenses, and permits | 573,541 | 36 | | | | | 573,577 |
| Due from other agencies (Note 8) | 14,361,030 | 1,446 | | | | 24,156 | 14,386,632 |
| Due from other funds (Note 9) | 1,790,767 | | | | | | 1,790,767 |
| Inventories (Note 2) | 492,451 | | | | | | 492,451 |
| Total assets | <u>\$80,759,770</u> | <u>\$ 1,629,885</u> | <u>\$ 2,102,439</u> | <u>\$33,569,675</u> | <u>\$14,533,770</u> | <u>\$ 2,291,337</u> | <u>\$ 134,886,876</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2015

| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | <u>General</u> | <u>Housing and Urban Development Programs</u> | <u>Health and Human Services Programs</u> | <u>Debt Service</u> | <u>Capital Project</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|---|---|----------------------|----------------------------|---|---|
| Liabilities | | | | | | | |
| Account payable and accrued liabilities | \$ 3,456,641 | \$ 233,348 | \$ - | \$ - | \$ 1,573,228 | \$ 191,294 | \$ 5,454,511 |
| Due to other funds (Note 9) | | | 1,686,511 | | | 104,256 | 1,790,767 |
| Due to other agencies (Note 11) | 22,095,733 | | | | | 4,966 | 22,100,699 |
| Total liabilities | <u>25,552,374</u> | <u>233,348</u> | <u>1,686,511</u> | <u>-</u> | <u>1,573,228</u> | <u>300,516</u> | <u>29,345,977</u> |
| Deferred inflows of resources: (Note 12) | | | | | | | |
| Municipal license taxes | 25,568,934 | | | | | | 25,568,934 |
| Federal government | | 57,455 | | | | 69,000 | 126,455 |
| Total deferred inflows of resources | <u>25,568,934</u> | <u>57,455</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>69,000</u> | <u>25,695,389</u> |
| Commitments and Contingencies (Notes 19 and 20) | | | | | | | |
| Fund Balances (Note 15) | | | | | | | |
| Nonspendable | 492,251 | | | | | | 492,251 |
| Restricted | | 1,339,082 | 415,928 | 33,569,675 | | 1,921,821 | 37,246,506 |
| Assigned | 5,190,938 | | | | 12,960,542 | | 18,151,480 |
| Unassigned | 23,955,273 | | | | | | 23,955,273 |
| Total fund balances | <u>29,638,462</u> | <u>1,339,082</u> | <u>415,928</u> | <u>33,569,675</u> | <u>12,960,542</u> | <u>1,921,821</u> | <u>79,845,510</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 80,759,770</u> | <u>\$ 1,629,885</u> | <u>\$ 2,102,439</u> | <u>\$ 33,569,675</u> | <u>\$ 14,533,770</u> | <u>\$ 2,291,337</u> | <u>\$ 134,886,876</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances-governmental funds \$ 79,845,510

Amounts reported for governmental activities in the statement
of net position are different because:

- Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 674,725,349
- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. **(Note 3)** (305,726,589)
- Some of the Municipality's revenues will be collected after year-ended, but no available soon enough to pay for the current period expenditures. 8,951,680

Net position of governmental activities \$ 457,795,950

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | General | Housing and Urban Development Programs | Health and Human Services Programs | Debt Service | Capital Project | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|---|---|----------------------|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | | |
| Property taxes (Note 5) | \$ 47,332,632 | \$ - | \$ - | \$ 27,544,881 | \$ - | \$ - | \$ 74,877,513 |
| Municipal license taxes (Note 6) | 33,468,411 | | | | | | 33,468,411 |
| Sales and use taxes (Note 7) | 19,528,100 | | | 3,725,247 | | | 23,253,347 |
| Licenses and permits | 1,397,899 | | | | | | 1,397,899 |
| Charges for service and rents | 2,424,303 | | | | | | 2,424,303 |
| Intergovernmental revenues (Note 13): | | | | | | | |
| Federal grants and contributions | | 21,044,514 | 16,876,301 | | | 3,933,741 | 41,854,556 |
| State contributions | 17,557,016 | | | | 76,707 | | 17,633,723 |
| Interest, fines, and penalties | 514,601 | | | 23,980 | | | 538,581 |
| Other revenues | 6,647,209 | | 39,867 | | | 359,881 | 7,046,957 |
| Total revenues | <u>128,870,171</u> | <u>21,044,514</u> | <u>16,916,168</u> | <u>31,294,108</u> | <u>76,707</u> | <u>4,293,622</u> | <u>202,495,290</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | 69,870,768 | | | | 488,810 | | 70,359,578 |
| Public safety | 9,975,447 | | | | | | 9,975,447 |
| Public works | 28,322,954 | 117,660 | | | | 326,742 | 28,767,356 |
| Culture | 422,567 | | | | | | 422,567 |
| Recreation | 3,588,345 | | | | | | 3,588,345 |
| Health and welfare | 11,395,373 | 17,955,778 | 18,106,276 | | | 1,454,053 | 48,911,480 |
| Education | 1,595,955 | | | | | 2,102,154 | 3,698,109 |
| Capital outlays | | | | | 11,809,043 | | 11,809,043 |
| Debt service: | | | | | | | |
| Principal retirement | | 1,775,000 | | 18,594,924 | | | 20,369,924 |
| Interest and other | | 1,126,974 | | 9,998,298 | | | 11,125,272 |
| Total expenditures | <u>125,171,409</u> | <u>20,975,412</u> | <u>18,106,276</u> | <u>28,593,222</u> | <u>12,297,853</u> | <u>3,882,949</u> | <u>209,027,121</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>3,698,762</u> | <u>69,102</u> | <u>(1,190,108)</u> | <u>2,700,886</u> | <u>(12,221,146)</u> | <u>410,673</u> | <u>(6,531,831)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Proceeds from credit line | | | | | 2,684,085 | | 2,684,085 |
| Loan proceeds | | | | | 8,090,000 | | 8,090,000 |
| Proceeds of refunded fund | | | | | 20,650,000 | | 20,650,000 |
| Payment of refunded fund | | | | (20,161,190) | | | (20,161,190) |
| Transfers in | 5,718,801 | 141,174 | | 21,659,117 | | | 27,519,092 |
| Transfers out | (1,639,101) | | | (5,718,801) | (20,161,190) | | (27,519,092) |
| Total other financing sources (uses) | <u>4,079,700</u> | <u>141,174</u> | <u>-</u> | <u>(4,220,874)</u> | <u>11,262,895</u> | <u>-</u> | <u>11,262,895</u> |
| Net change in fund balances | <u>7,778,462</u> | <u>210,276</u> | <u>(1,190,108)</u> | <u>(1,519,988)</u> | <u>(958,251)</u> | <u>410,673</u> | <u>4,731,064</u> |
| FUND BALANCE AT BEGINNING OF YEAR | <u>21,860,000</u> | <u>1,128,806</u> | <u>1,606,036</u> | <u>35,089,663</u> | <u>13,918,793</u> | <u>1,511,148</u> | <u>75,114,446</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 29,638,462</u> | <u>\$ 1,339,082</u> | <u>\$ 415,928</u> | <u>\$ 33,569,675</u> | <u>\$ 12,960,542</u> | <u>\$ 1,921,821</u> | <u>\$ 79,845,510</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Net change in fund balances - total governmental funds \$ 4,731,064

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 13,783,885
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,751,680
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (23,456,368)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (11,262,895)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 20,369,924
- Governmental funds report proceeds received in the disposal of assets. In the statement of activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of disposal assets. (565,687)
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (1,568,873)

Changes in net position of governmental activities \$ 3,782,730

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. ORGANIZATION

The Municipality of Bayamón, Puerto Rico, (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health, and welfare, education and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The financial information of the Municipality is presented in this report as follows:

- Management's Discussion and Analysis - Introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
- Government - Wide Financial Statements - This reporting model includes financial statements prepared using full accrual of accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt).
- Statement of Net Position - The statement of net position is designed to display the financial position of the Municipality, including capital assets and infrastructure. The net position of the Municipality will be broken down into three

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

categories; invested in capital assets, net of related debt; restricted; and unrestricted.

- Statement of Program Activities - The government - wide statement of activities report expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.
- Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Under the new reporting model, the Municipality will continue to provide budgetary comparison information in their financial statements. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

The following is a summary of the more significant policies:

a. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financially accountable.

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 Municipality is not financially accountable, but 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 accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

- 1) The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

financial benefits to, or impose specific financial burdens on, the Municipality.

- 2) The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2015.

b. Government - Wide and Governmental Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all the activities of the Municipality.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The effects of all inter-fund activities (assets, liabilities, revenues, expenditures and other financing sources/uses among governmental funds) have been eliminated from the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Property taxes, sales taxes, franchise taxes, licenses, and interests associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and when the amount is received during the period or within the availability period for this revenue source (within 60 days or year-end). Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

The Municipality reports the following major governmental funds:

- General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenue sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

- Health and Human Services Programs (HHS Programs)

This fund account for revenue sources to provide essential human services such as health insurance for elderly and low-income people, improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

including the prevention of the outbreak of infectious disease and immunization services.

- Debt Service Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

- Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

d. Cash and Cash Equivalents, Cash with Fiscal Agent, and Certificates of Deposits

The Municipality's Finance Director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in certificates of deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund.

Cash with fiscal agent in the capital projects fund consists of unused proceeds from appropriations from the Legislature Assembly of Puerto Rico, for the payment of current liabilities, and bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections withheld by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

e. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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.

f. Inventories

Inventories in the general fund are stated at cost and consist of office, printing, and maintenance supplies, gasoline, oil and other items held for consumption and are recorded as expenditures at the time the inventory items are consumed rather than when purchased.

The carrying value of inventories are offset by nonspendable fund balances of the same amounts in the applicable governmental funds to indicate that such resources are not considered current available financial resources at June 30, 2015 since they are not expected to be converted to cash after the current fiscal year-end.

g. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

| | <u>Useful Life</u> |
|-------------------------------------|--------------------|
| Infrastructure | 25-50 years |
| Buildings and building improvements | 20-50 years |
| Furniture and fixtures | 5-10 years |
| Vehicles and equipment | 5-20 years |

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

h. Fund Balances

The Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying fund financial statements report fund balance amounts that are considered nonspendable, such as fund balance associated with inventories. Other fund balances have been reported as restricted, committed, assigned, and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that indicate the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2015.

In situations when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources when expenditures occurred.

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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i. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the municipalities of Puerto Rico. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2015 amounted to approximately \$2.6 million. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$1.5 million for workers' compensation insurance covering all municipal employees.

j. Compensated Absences

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

k. Pensions

For purpose of measuring, the next pension liability, deferred outflows of resources and deferred inflows of resources and pension expenses, information about fiduciary net position of the employee's retirement system of the Government of the Commonwealth of Puerto Rico (ERS) and addition to reductions from ERS's liabilities net position should have been determined on the same basis as they are reported by the ERS. However, as of the date that financial statement has been issued, the ERS has not issued the financial statements as of June 30, 2014. Accordingly the information related to the pension plans is not available and is not included in the accompanying financial statements of the Municipality for the year ended June 30, 2015.

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

| <u>Statement Number</u> | <u>Statement Name</u> | <u>Adoption Required in Fiscal Year</u> |
|-----------------------------|---|---|
| 72 | Fair Value Measurement and Application | 2015-16 |
| 73 | Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 | 2015-16 |
| 74 | Financial Reporting for Postemployment Benefits Plans other than Pension Plans | 2016-17 |
| 75 | Accounting and Financial Reporting for Postemployment Benefits other the Pensions | 2017-18 |
| 76 | The Hierarchy of Generally Accepted Accounting Principles for State and Local Government | 2015-16 |
| 77 | Tax Abatement Disclosures | 2016-17 |
| 78 | Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans | 2016-17 |
| 79 | Certain External Investment Pools and Pool Participant | 2016-17 |

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

m. Deferred Inflows

The Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63).

In the GFFS, deferred inflows arises when one of the following situations occur:

- Potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period (reported as *earned but unavailable revenue* in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2015 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.
- The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

Deferred inflows at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as *unearned revenue* in the accompanying statement of net position). No *earned but unavailable revenue* is accounted for in the accompanying statement of net position.

n. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and

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expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$306 million difference is as follows:

| | |
|---|-----------------------|
| Bonds payable | \$ 246,402,390 |
| Notes payable | 22,436,166 |
| Compensated absences | 12,355,998 |
| Accrued interest payable | 12,166,839 |
| Credit line | 11,581,833 |
| Claims and judgments | 750,000 |
| CRIM | <u>33,363</u> |
| Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities | <u>\$ 305,726,589</u> |

4. DEPOSITS AND INVESTMENTS

a. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Under Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico.

In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

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The deposits at GDB of approximately \$6.5 million that are restricted principally for capital projects and the \$31.3 million in the debt service fund are uninsured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in two (2) banks located at Puerto Rico. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

The excess is covered by collateral provided by banks and held by the Treasury Department of the Commonwealth of Puerto Rico pursuant to applicable laws and regulations.

5. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 9.58% for real property and 7.58% for personal property. The composition is as follows:

| | Real | Personal |
|---|--------------|-----------------|
| Basic property | 6.00% | 4.00% |
| Additional special property - state | 1.03% | 1.03% |
| Additional special property – municipal | 2.75% | 2.75% |
| Discounts made by state to tax payer | < .20% > | < .20% > |
| | <u>9.58%</u> | <u>7.58%</u> |

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the preliminary settlement from CRIM related to fiscal year 2014-15, but not the final settlement as the six months period after fiscal year ends, provided by law to CRIM to issue this, has not yet expired. Management believes, based in part on the experience from prior years, that when received, the final settlement from CRIM will not show a significant difference from the preliminary settlement and that such difference, if any, will not have a material effect on the financial condition of the Municipality.

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Based on the preliminary settlement already received, during the year ended June 30, 2015, the amount collected by CRIM exceeded the amount advanced by CRIM from taxpayers and charges for the same period by approximately \$327,621. Such amount is presented as due to CRIM in the accompanying financial statements. (See Note 8).

6. MUNICIPAL LICENSE TAXES

Municipal license taxes receivable are recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2015. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Bayamón, and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Bayamón, are as follows:

| | | |
|------------------------|---|------|
| Financial institutions | = | 1.5% |
| Other organizations | = | .5% |

The amounts collected in advance are recorded as deferred inflow of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$25.5 million, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

On January 24, 2014, the Commonwealth's Legislature enacted Act. No. 19, which amended Act. No. 1, 2011's Internal Revenue Code, to create the Municipal Finance Corporation ("COFIM" by its Spanish acronym). COFIM is ascribed to Government Development Bank of Puerto Rico ("GDB") and was created to govern the aggregate municipal debt. Pursuant to this legislation, a GDB deposit account, the Municipal Redemption Fund, was originated in which, effective on July 1, 2014, 1% of the sales and use tax will be collected by COFIM with the purpose of the Municipal Redemption Fund.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The higher of the first collections of the prior year product of the sales and use tax or the applicable fixed income will be the funding source of the COFIM deposit. Beginning in the fiscal year 2014-2015, sales and use tax will be deposited in the COFIM's Redemption Fund and will be pledged with the purpose of service COFIM'S obligations. Any excess of the COFIM deposit will be transferred to the municipalities based on the proportion of their respective collections.

Act No. 19 also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety cost. Amount collected by COFIM will be deposited in accounts of special funds in the GDB, subject to restrictions.

During each subsequent fiscal year, the first collections of the sales and use tax will be credited at the time of being received in the COFIM's Redemption Fund or any other special fund, including a fund under the control of the trust that has been designated in the trust agreement or other contract of pledge under which the COFIM bonds had been issued or incurred other obligations.

On or before August 30th of each fiscal year, GDB, as fiscal agent, will determine the COFIM deposit applicable to the current fiscal year. An amount equal to the COFIM's deposit from the first collections of the sales and use tax for that fiscal year shall be deposited in the Redemption Fund of the COFIM.

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

| | |
|---|--------------------------|
| Puerto Rico Electric Power of Authority | \$ 12,925,811 |
| COFIM | 1,107,598 |
| CRIM | 327,621 |
| U. S. Department of Housing and Urban Development | 1,446 |
| Other governmental funds | <u>24,156</u> |
| Total | <u>\$ 14,386,632</u> |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

9. INTERFUND TRANSACTIONS

a. Due from/to Other Funds:

The due from and due to other fund balances as of June 30, 2015, are as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|---------------------|
| General | HHS programs | \$ 1,686,511 |
| General | Other governmental | <u>104,256</u> |
| Total | | <u>\$ 1,790,767</u> |

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

b. Interfund Transfers:

Interfund transfers for the year ended June 30, 2015 consisted of the following:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|--------------------|---------------------|----------------------|
| Debt Service | Capital Project | \$ 20,161,190 |
| Debt Service | General | 5,718,801 |
| General | Debt Service | <u>1,639,101</u> |
| Total | | <u>\$ 27,519,092</u> |

The transfer from the general fund to the debt service fund of approximately \$1.6 million represents monies transferred to cover debt service payments as become due. The additional transfer of \$20.1 million are for the payment of refunded bonds.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to

**COMMONWEALTH OF PUERTO RICO
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
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finance various programs accounted for in other funds in accordance with budgetary authorizations.

10. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

| | <u>Balance</u> <u>June 30, 2014</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2015</u> |
|--|--|-----------------------|-------------------|--|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 271,724,316 | \$ 1,348,661 | \$ 35,111 | \$ 273,037,866 |
| Construction in progress | 22,110,715 | 3,696,914 | 232,587 | 25,575,042 |
| Art work | 3,230,740 | 35,800 | 150,000 | 3,116,540 |
| Total capital assets, not being depreciated | <u>297,065,771</u> | <u>5,081,375</u> | <u>417,698</u> | <u>301,729,448</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and building improvements | 358,513,436 | 2,184,550 | 193,075 | 360,504,911 |
| Furniture and fixtures | 2,339,915 | 143,418 | 38,226 | 2,445,107 |
| Vehicles and equipment | 36,383,170 | 1,528,877 | 2,014,162 | 35,897,885 |
| Infrastructure | 203,709,421 | 5,078,252 | | 208,787,673 |
| Total capital assets, being depreciated | <u>600,945,942</u> | <u>8,935,097</u> | <u>2,245,463</u> | <u>607,635,576</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and building improvements | 97,497,118 | 7,801,346 | | 105,298,464 |
| Furniture and fixtures | 1,853,368 | 104,656 | 35,010 | 1,923,014 |
| Vehicles and equipment | 27,745,776 | 1,802,627 | 1,829,877 | 27,718,526 |
| Infrastructure | 85,951,932 | 13,747,739 | | 99,699,671 |
| Total accumulated depreciation | <u>213,048,194</u> | <u>23,456,368</u> | <u>1,864,887</u> | <u>234,639,675</u> |
| Total capital assets, being depreciated, net | <u>387,897,748</u> | <u>(14,521,271)</u> | <u>380,576</u> | <u>372,995,901</u> |
| Governmental activities capital assets, net | <u>\$ 684,963,519</u> | <u>\$ (9,439,896)</u> | <u>\$ 798,274</u> | <u>\$ 674,725,349</u> |

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

| | |
|--------------------|----------------------|
| Public works | \$ 13,837,979 |
| Recreation | 5,165,527 |
| General government | 2,977,003 |
| Health and welfare | 654,221 |
| Education | 335,692 |
| Culture | 262,423 |
| Public safety | 223,523 |
| Total | <u>\$ 23,456,368</u> |

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FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

11. DUE TO OTHER AGENCIES

Due to other agencies at June 30, 2015 are as follows:

| | |
|---|-------------------------|
| Puerto Rico Electric Power Authority | \$12,925,811 |
| Puerto Rico Aqueduct and Sewer Authority | 860,240 |
| Retirement System Administration | 254,203 |
| Other governmental funds | 4,966 |
| Puerto Rico Treasury Department | 31,922 |
| Puerto Rico Général Services Administration | 50 |
| COFIM | <u>8,023,507</u> |
| Total | <u>\$22,100,699</u> |

12. DEFERRED INFLOWS OF RESOURCES

a. Municipal License Taxes

The deferred inflows of resources of approximately \$25.5 million in the general fund related to municipal license tax collected in fiscal year 2014-15 that will be earned in fiscal year 2015-16.

b. Federal Government

The deferred inflows of resources presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred. The amounts were determined taking into consideration the specific years of the grant.

13. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

14. NOTE RECEIVABLE

On February 2012, the Municipality entered into a capital loan agreement with Bayamón Hotel Company, LLC ("BHC"). The agreement was executed in connection with the development and construction by BHC of a 156-room hotel under the Hyatt Place brand, with related amenities and a 10,500 square foot casino, in property leased from the Municipality, adjoining the Municipality's Science Park. As a result, the Municipality has a note receivable, as of June 30, 2015, in the amount of \$7,230,000, the Municipality Commitment, due from Bayamón Hotel Company, LLC, which represents advances to BHC, including the principal sum of \$7,200,000 and expenses of \$30,000 related to the agreement. The first draw included \$304,672 for the funding of an escrow account in the Government Development Bank for Puerto Rico (GDB). The note is unsecured and bears interest at 1.50% above bank's prime rate, provided that the rate of interest applicable to the unpaid principal balance shall at no times be less than six percent (6%). The applicable rate shall be adjusted automatically upon a change of interest rate payable by the Municipality in its related GDB Line of Credit or Revenue Bond. Interest is payable on a semiannual basis on the first day of each semiannual period commencing on January 1st, 2014. Principal is payable semiannually beginning on the fifth year after the last funding date, provided no later than the opening date.

15. LONG-TERM DEBTS

Bonds and notes payable and other debt outstanding at June 30, 2015 are as follows:

a. Legal Debt Margin

The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus the balance of the special ad valorem taxes in the debt service fund. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

b. Bonds

| | |
|--|--------------|
| \$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2019, interest ranging from 6.1% to 8.2%. | \$ 6,680,000 |
| \$2,595,000 series of 1999, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest ranging from 4.8% to 6.5%. | 1,520,000 |
| \$16,535,000 series of 1998, payable in annual installments of \$440,000 to \$1,640,000 until July 1, 2015, interest ranging from 4.8% to 6.7%. | 1,640,000 |
| \$17,275,000 series of 1999, payable in annual installments of \$590,000 to \$1,760,000 until July 1, 2015, interest ranging from 2.7% to 7.8%. | 1,760,000 |
| \$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2024, interest ranging from 2.7% to 7.8%. | 1,045,000 |
| \$22,820,000 series of 2001, payable in annual installments of \$750,000 to \$2,385,000 until July 1, 2016, interest ranging from 2.8% to 6.13%. | 4,595,000 |
| \$2,765,000 series of 2001, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest ranging from 2.7% to 6.13%. | 1,845,000 |
| \$11,945,000 series of 2001, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest ranging from 2.7% to 6.13%. | 7,995,000 |
| \$2,015,000 series of 2002, payable in annual installments of \$75,000 to \$220,000 until July 1, 2016, interest ranging from 2.7% to 5%. | 420,000 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | |
|---|--------------|
| \$12,060,000 series of 2002, payable in annual installments of \$265,000 to \$1,135,000 until July 1, 2021, interest ranging from 2.7% to 5.39%. | \$ 6,395,000 |
| \$10,050,000 series of 2005, payable in annual installments of \$210,000 to \$685,000 until July 1, 2029, interest ranging from 3.28% to 5%. | 7,410,000 |
| \$905,000 series of 2005, payable in annual installments of \$15,000 to \$60,000 until July 1, 2029, interest ranging from 1.53% to 7.25%. | 670,000 |
| \$6,935,000 series of 2005, payable in annual installments of \$145,000 to \$470,000 until July 1, 2029, interest ranging from 4.17% to 5%. | 5,105,000 |
| \$19,066,000 series of 2005, payable in annual installments of \$360,000 to \$1,386,000 until July 1, 2029, interest ranging from 3.75% to 5.31%. | 14,316,000 |
| \$4,140,000 series of 2005, payable in annual installments of \$80,000 to \$300,000 until July 1, 2029, interest ranging from 4.17% to 5.31%. | 3,100,000 |
| \$4,825,000 series of 2006, payable in annual installments of \$95,000 to \$345,000 until July 1, 2030, interest ranging from 4.23% to 5.33%. | 3,765,000 |
| \$7,270,000 series of 2006, payable in annual installments of \$120,000 to \$560,000 until July 1, 2030, interest ranging from 4.23% to 5.33%. | 5,835,000 |
| \$9,327,500 series of 2007, payable in annual installments of \$365,000 to \$700,000 until July 1, 2031, interest ranging from 2.93% to 5.62%. | 7,652,500 |
| \$10,670,000 series of 2008, payable in annual installments of \$405,000 to \$1,125,000 until July 1, 2022, interest ranging from 1.53% to 7.5%. | 7,085,000 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | |
|--|--------------|
| \$1,390,000 series of 2008, payable in annual installments of \$20,000 to \$120,000 until July 1, 2032, interest ranging from 1.53% to 7.5%. | \$ 1,215,000 |
| \$1,510,000 series of 2008, payable in annual installments of \$20,000 to \$130,000 until July 1, 2032, interest ranging from 1.53% to 7.5%. | 1,315,000 |
| \$6,030,000 series of 2008, payable in annual installments of \$490,000 to \$880,000 until July 1, 2017, interest ranging from 1.53% to 7.5%. | 2,460,000 |
| \$10,710,000 series of 2008, payable in annual installments of \$155,000 to \$915,000 until July 1, 2032, interest ranging from 1.53% to 7.5%. | 9,575,000 |
| \$18,790,000 series of 2008, payable in annual installments of \$430,000 to \$1,715,000 until July 1, 2028, interest ranging from 1.53% to 7.5%. | 15,650,000 |
| \$2,515,000 series of 2008, payable in annual installments of \$35,000 to \$215,000 until July 1, 2032, interest ranging from 1.53% to 7.5%. | 2,225,000 |
| \$9,580,000 series of 2009, payable in annual installments of \$670,000 to \$1,300,000 until July 1, 2018, interest ranging from 1.53% to 7.5%. | 4,680,000 |
| \$7,030,000 series of 2009, payable in annual installments of \$495,000 to \$955,000 until July 1, 2018, interest ranging from 1.53% to 7.5%. | 3,430,000 |
| \$8,110,000 series of 2010 payable in annual installments of \$115,000 to \$875,000 until July 1, 2026, interest ranging from 4.40% to 7.25%. | 7,485,000 |
| \$10,540,000 series of 2012 payable in annual installments of \$180,000 to \$815,000 until July 1, 2035, interest ranging from 6.0% to 6.5%. | 9,750,000 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | |
|--|---------------|
| \$15,832,365 series of 2013, payable in annual installments of \$635,000 to \$1,227,365 until July 1, 2037, interest ranging from 5.3% to 7%. | \$ 15,197,365 |
| \$8,050,825 series of 2013, payable in annual installments of \$5,000 to \$900,825 until July 1, 2033, interest ranging from 5.3% to 6%. | 8,040,825 |
| \$1,985,700 series of 2013, payable in annual installments of \$190,000 to \$320,700 until July 1, 2020, interest ranging from 5.3% to 6%. | 1,590,700 |
| \$3,220,00 series of 2013 payable in annual installments of \$120,000 to \$340,000 until July 1, 2027, interest ranging from 6% to 7.5%. | 2,965,000 |
| \$8,670,000 series of 2014 payable in annual installments of \$1,480,000 to \$2,055,000 until July 1, 2018, interest ranging from 3.90% to 5%. | 7,190,000 |
| \$8,110,000 series of 2014 payable in annual installments of \$85,000 to \$103,000 until July 1, 2026, interest ranging from 4% to 5%. | 8,025,000 |
| \$20,255,000 series of 2014 payable in annual installments of \$215,000 to \$2,545,000 until July 1, 2026, interest ranging from 4% to 5%. | 20,040,000 |
| \$8,000,000 series of 2014 payable in annual installments of \$5,000 to \$1,055,000 until July 1, 2028, interest ranging from 4.25 % to 5%. | 7,995,000 |
| \$20,650,000 series 2015 payable in annual installments of \$420,000 to \$2,590,000 until 2035, interest ranging from 3.52% to 6%. | 20,650,000 |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

\$8,090,000 series 2015 payable in annual installments of \$450,000 to \$2,040,000 until 2024, interest ranging from 3.48% to 6%.

\$ 8,090,000

Total bonds payable

\$ 246,402,390

The annual debt services requirements for the bonds payable are as follows:

| | <i>Bonds</i> | |
|-----------|----------------------|-----------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 18,925,000 | \$ 11,024,689 |
| 2017 | 18,350,000 | 13,341,370 |
| 2018 | 17,990,000 | 12,138,639 |
| 2019 | 17,280,000 | 11,050,070 |
| 2020 | 14,220,000 | 10,080,300 |
| 2021-2025 | 70,385,700 | 38,090,534 |
| 2026-2030 | 58,783,500 | 18,042,666 |
| 2031-2035 | 27,155,825 | 5,150,599 |
| 2036-2039 | 3,312,365 | 330,177 |
| | <u>\$246,402,390</u> | <u>\$ 119,249,044</u> |

c. Credit Line

Credit line of \$2.5 million represents advances from the Government Development Bank for Puerto Rico guaranteed with certificates of deposits with interest at .14% over the interest rate paid in the certificates of deposits. The proceeds of these advances will be used to expropriate properties for the development of the town and the construction of a docking plant.

Credit line of \$7.2 million represents a line of credit with Government Development Bank for the development of a hotel in the facilities of "Parque de las Ciencias". The interest rate is variable prime plus 1.50% with a minimum of 6.00%. Interest will be paid at maturity. At June 30, 2015, the credit line balance totaled \$7.2 million.

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Credit line of \$7.4 million represents a line of credit with Banco Popular de Puerto Rico for the development of a parking in the facilities of "Parque de las Ciencias". At June 30, 2015, the credit line balance totaled \$1.9 million.

d. Note Payable - CRIM (Law 42)

Note payable of \$1.3 million represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$123,417 plus interest rate of 6.25%.

The annual debt service requirements for the note payable at June 30, 2015, are as follows:

| | <u>Note Payable - CRIM (Law 42)</u> | |
|-----------|--|--------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 44,472 | \$ 78,939 |
| 2017 | 47,272 | 76,144 |
| 2018 | 50,243 | 73,175 |
| 2019 | 53,399 | 70,018 |
| 2020 | 56,755 | 66,662 |
| 2021-2025 | 341,961 | 275,125 |
| 2026-2030 | 463,767 | 153,918 |
| 2031-2035 | 228,869 | 17,970 |
| | <u>\$ 1,286,738</u> | <u>\$ 811,951</u> |

e. Note Payable - CRIM (Law 146)

On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$2,425,627, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a no revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032.

As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5 year period, the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

| | <u>Note Payable - CRIM (Law 146)</u> | |
|-----------|---|------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2016 | \$ 97,025 | \$ 114,462 |
| 2017 | 97,025 | 109,251 |
| 2018 | 97,025 | 103,878 |
| 2019 | 97,025 | 98,338 |
| 2020 | 97,025 | 96,625 |
| 2021-2025 | 485,125 | 371,023 |
| 2026-2030 | 485,125 | 163,077 |
| 2031-2035 | 193,053 | 25,262 |
| | <u>\$ 1,648,428</u> | <u>\$1,081,916</u> |

g. Notes Payable - Section 108

Notes payable of \$23 million due to the U.S. Department of Housing and Urban Development, payable in annual aggregate principal installments ranging from

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

\$1,300,000 to \$2,000,000, plus interest, which fluctuates from 1.16% to 2.88%.
The note payable is due in August 2024.

| | <i>Note Payable - Section 108</i> | |
|-----------|--|----------------------------|
| | Principal | Interest |
| 2016 | \$ 2,000,000 | \$ 1,027,688 |
| 2017 | 2,000,000 | 919,927 |
| 2018 | 2,300,000 | 801,647 |
| 2019 | 3,500,000 | 606,088 |
| 2020 | 2,700,000 | 468,063 |
| 2021-2024 | 7,000,000 | 752,768 |
| | <u>\$ 19,500,000</u> | <u>\$ 4,576,181</u> |

As described in note 6, the Municipality levies an annual special tax of 2.75% of the assessed value of real property. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The property taxes are collected and retained by the CRIM.

| | Beginning Balance | Additions | Payments | Ending Balance | Due within One Year |
|-------------------------------|------------------------------|-----------------------------|-----------------------------|------------------------------|--------------------------------|
| Bonds payable | \$ 256,208,580 | \$ 8,578,810 | \$ 18,385,000 | \$ 246,402,390 | \$ 18,925,000 |
| Credit line | 8,897,748 | 2,684,085 | | 11,581,833 | |
| Note payable - CRIM (Law 146) | 1,746,453 | | 97,025 | 1,649,428 | 97,025 |
| Note payable - CRIM (Law 42) | 1,328,585 | | 41,847 | 1,286,738 | 44,472 |
| Note payable - HUD | 21,275,000 | | 1,775,000 | 19,500,000 | 2,000,000 |
| Total long-term debt | <u>289,456,366</u> | <u>11,262,895</u> | <u>20,298,872</u> | <u>280,420,389</u> | <u>21,066,497</u> |
| Due to CRIM | 104,415 | | 71,052 | 33,363 | 33,363 |
| Claims and judgements | 850,000 | | 100,000 | 750,000 | - |
| Compensated absences | 12,363,238 | - | 7,240 | 12,355,998 | 500,000 |
| Total other liabilities | <u>13,317,653</u> | <u>-</u> | <u>178,292</u> | <u>13,139,361</u> | <u>533,363</u> |
| Total noncurrent liabilities | <u>\$ 302,774,019</u> | <u>\$ 11,262,895</u> | <u>\$ 20,477,164</u> | <u>\$ 293,559,750</u> | <u>\$ 21,599,860</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

16. FUND BALANCES

As of June 30, 2015, fund balances are comprised of the following:

| | General | Housing and Urban Development Programs | Health and Human Services Programs | Debt Service | Capital Projects | Other Governmental Funds | Total |
|--------------------|---------------------|---|---|---------------------|---------------------|--------------------------------|---------------------|
| Nonspendable: | | | | | | | |
| Inventory | \$ 492,251 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 492,251 |
| Restricted: | | | | | | | |
| Public works | | 477,861 | | | | 351,059 | 828,920 |
| Health and welfare | | 861,221 | 415,928 | | | 1,570,762 | 2,847,911 |
| Capital outlays | | | | | 12,960,542 | | 12,960,542 |
| Debt service | | | | 33,569,675 | | | 33,569,675 |
| Assigned: | | | | | | | |
| General government | 850,909 | | | | | | 850,909 |
| Public safety | 1,550,914 | | | | | | 1,550,914 |
| Public works | 1,807,666 | | | | | | 1,807,666 |
| Culture | 55,318 | | | | | | 55,318 |
| Recreation | 334,607 | | | | | | 334,607 |
| Health and welfare | 235,656 | | | | | | 235,656 |
| Education | 355,868 | | | | | | 355,868 |
| Unassigned | 23,955,273 | | | | | | 23,955,273 |
| | <u>\$29,638,462</u> | <u>\$ 1,339,082</u> | <u>\$ 415,928</u> | <u>\$33,569,675</u> | <u>\$12,960,542</u> | <u>\$ 1,921,821</u> | <u>\$79,845,510</u> |

17. RETIREMENT PLAN

a. Plan Description

Substantially all Municipality's full time employees are under the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS). The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Government Employees System Administration and was established by Act No. 447 on May 15, 1951. Act No. 447 was significantly modified by Act. No. 1 of 1990 and by Act 305 of 1999, later known as System 2000.

b. Benefits Provided

Retirement benefits for municipality employees include retirement, disability, death, vested, and nonvested withdrawals. Employees retiring prior to July 1, 2013, annuity benefits are subject to \$500 minimum monthly. Other benefits for qualifying employees include additional minimum pension, ad-hoc cost-of-living adjustment (COLAs), benefits due to death and disability, medical insurance plan contribution, Christmas bonus, and medication bonus.

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Plan members were eligible for merit annuity as long as they have 30 years or more of credited service. The annuity is limited to a minimum of 65% and a maximum of 75% of the average compensation.

Act No. 3, as enacted by legislation in April 4, 2013, constituted a comprehensive a reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

- 1) For active participants of the contributory defined benefit program under Act No. 447 of 1951 and Act No. 1 of 1990, all requirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid a retirement through lifetime annuity.
- 2) Increased the minimum pension for current retirees from \$400 to \$500 per month.
- 3) The retirement age for Act No. 447 participants is gradually increased from age 58 to age 61.
- 4) The retirement age for System 2000 participants is gradually increased from age 60 to age 65.
- 5) Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
- 6) Eliminated the merit annuity available who joined the ERS prior to April 1, 1990.
- 7) The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
- 8) The employee contribution rate was increased from 8.275% to 10%.
- 9) For System 2000 participants, the retirement will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

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MUNICIPALITY OF BAYAMÓN
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

- 10) Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution saving will be contributed to the ERS.
- 11) Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
- 12) Survivor benefits were modified.

c. Contribution Requirements

Employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes as delineated in Act No. 3 of 2013, with varying provisions for the three-group as Act 447 employees, Act 1 employees, and System 2000 employees.

Pursuant to Act No.116 of 2011, employer contribution is increased by 1% annually from 9.275% of compensation to 10.275% beginning on July 1st, 2012 to June 30th, 2016. Act No. 116 includes subsequent increases of 1.25% annually from July 1st, 2016 to June 30th, 2021.

d. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

GASB Statement 68 on Accounting and Financial Reporting for Pensions establishes for cost sharing government-employers plans to report their proportional share of the plan's net pension liability, deferred outflows of resources, and deferred inflows of resources in their statements of net position. As of June 30, 2015, the required information for the proportional share of the pension liability, pension expense, and the related deferred outflows of resources and deferred inflows of resources was not available from the ERS.

The most recent available financial statements of the pension funds are for the year ended June 30, 2013, which reflected a significant unfunded actuarial liability. This financial information included a decrease of 1.4% in the funded ratio of the actuarial accrued liability for pension benefits, 3.1% and 4.5% at June 30, 2013 and 2012, respectively. Furthermore, the ERS's financial report for the year

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

ended June 30, 2014 and the amount of contributions recognized by the pension plan from the Municipality were not available as of June 30, 2015.

18. RISK MANAGEMENT

The Risk Management Division of the Municipality's Legal Department is responsible of assuring that the Municipality's property is properly insured. Annually, the Risk Management Division compiles the information of all property owned and its respective market value. After evaluating this information, the Risk Management Division submits the data regarding the Municipality's properties to the Area of Public Insurance at the Department of the Treasury of the Commonwealth of Puerto Rico who is responsible for purchasing all property and casualty insurance policies of all municipalities.

19. LEASES

Operating Leases

Leasing arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place and its Transportation Center under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2015 was approximately \$770,000.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

The Municipality is obligated under non-cancellable operational leases, with periods not longer than one year.

20. CONTINGENCIES

- a. The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

- b. The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

21. COMMITMENTS

The Municipality of Bayamón had several outstanding or planned construction projects as of June 30, 2015. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects' funds that amounted to approximately \$15.9 million.

22. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through February 12, 2016, the date on which the financial statements were available to be issued.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
JUNE 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with</u> |
|--|-------------------------|--------------------|--------------------------|-----------------------|
| | <u>Original</u> | <u>Final</u> | <u>(Budgetary Basis)</u> | <u>Final Budget-</u> |
| | | | <u>(See Note 1)</u> | <u>Positive</u> |
| | | | | <u>(Negative)</u> |
| REVENUES | | | | |
| Property taxes | \$ 47,005,011 | \$ 47,005,011 | \$ 47,005,011 | \$ - |
| Municipal license taxes | 32,750,000 | 32,750,000 | 33,513,512 | 763,512 |
| Sales and use taxes | 23,133,847 | 23,133,847 | 20,033,757 | (3,100,090) |
| Licences and permits | 2,600,000 | 2,600,000 | 1,574,342 | (1,025,658) |
| Charges for services and rent | 2,523,428 | 2,523,428 | 880,060 | (1,643,368) |
| Intergovernmental revenues: | | | | |
| State contributions | 15,603,526 | 15,603,526 | 16,075,658 | 472,132 |
| Interest, fines, and penalties | 550,000 | 550,000 | 533,402 | (16,598) |
| Other revenues | 1,225,000 | 2,225,000 | 3,835,421 | 1,610,421 |
| Total of revenues | <u>125,390,812</u> | <u>126,390,812</u> | <u>123,451,163</u> | <u>(2,939,649)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 70,749,627 | 79,259,658 | 75,275,262 | 3,984,396 |
| Public safety | 11,716,292 | 11,506,191 | 10,767,311 | 738,880 |
| Public works | 30,252,896 | 30,085,331 | 28,776,252 | 1,309,079 |
| Culture | 617,374 | 501,062 | 454,499 | 46,563 |
| Recreation | 3,874,419 | 3,832,359 | 3,729,442 | 102,917 |
| Health and welfare | 4,179,755 | 3,950,991 | 3,083,065 | 867,926 |
| Education | 4,000,449 | 3,489,420 | 1,905,558 | 1,583,862 |
| Total of expenditures | <u>125,390,812</u> | <u>132,625,012</u> | <u>123,991,389</u> | <u>8,633,623</u> |
| OTHER FINANCING SOURCES | | | | |
| Reprogramming funds | - | 6,234,200 | 6,234,200 | - |
| Excess of revenues over expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,693,974</u> | <u>\$ 5,693,974</u> |
| Explanation of Differences: | | | | |
| Sources/inflows of resources: | | | | |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule | | | | \$ 123,451,163 |
| Differences - budget to GAAP: | | | | |
| Actual revenues considered revenues for financial reporting purposes but not inflows for budget purposes (net change in receivables) | | | | (4,274,910) |
| Non-budgeted funds | | | | 9,693,918 |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances | | | | <u>\$ 128,870,171</u> |
| Uses/outflows of resources: | | | | |
| Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule | | | | \$ 123,991,389 |
| Differences - budget to GAAP: | | | | |
| Prior year encumbrances recorded as current year expenditures for GAAP basis | | | | 4,466,011 |
| Non-budgets funds | | | | (3,380,361) |
| Net change in accounts payable | | | | 5,285,308 |
| Current year encumbrances recorded as expenditures for budgetary purposes | | | | (5,190,938) |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances | | | | <u>\$ 125,171,409</u> |

See note to Budgetary Comparison Schedule.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of certain appropriations within the budget known as Mayor's Executive Orders, do not require the approval of the Municipal Legislature. The Municipality prepares its annual budget including the operations of the general fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For US GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

The unencumbered balance of any appropriation at the end of the fiscal year will lapse at the end of such fiscal year. Other appropriations, mainly capital project appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The annual budget as presented in the Budgetary Comparison Schedule – General Fund is the budget resolutions at June 30, 2015 representing the original budget.

PART III – SINGLE AUDIT SECTION

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| Federal Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Disbursements/ Expenditures |
|---|---------------------------|--|---|
| U.S. Department of Housing and Urban Development (HUD) | | | |
| Community Development Block Grant Entitlement Grants | 14.218 | | \$ 3,017,568 |
| Neighborhood Stabilization Program | 14.256 | | 32,314 |
| Emergency Shelter Grant Program | 14.231 | | 301,566 |
| Homelessness Prevention and Rapid-Re-Housing Program (Recovery Act Funded) | 14.257 | | 27,749 |
| Home Investment Partnership Program | 14.239 | | 1,646,458 |
| Urban Development Block Grant | 14.221 | | 2,066 |
| Section 8 - Moderate Rehabilitation Phase 5 | 14.249 | | 243,466 |
| Section 8 - Housing Choice Vouchers | 14.871 | | 15,704,225 |
| Subtotal U.S. Department of HUD | | | <u>20,975,412</u> |
| U.S. Department of Health and Human Services (HHS) | | | |
| Head Start Program | 93.600 | | 14,020,508 |
| Pass through Oficina de la Procuradora de las Personas de Edad Avanzada: | | | |
| Special Programs for the Aging - Title III, Part C - Nutrition Services | 93.045 | | 211,312 |
| Pass through the Municipality of San Juan: | | | |
| HIV Emergency Relief Projects Grants | 93.914 | | 1,267,077 |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Title III | 93.918 | | 670,442 |
| Pass through State of Office of the Governor - Office of Economic Opportunity; then Office of Human Development: | | | |
| Community Service Block Grant | 93.569 | N/A | 1,230,568 |
| Pass through Administration of Families and Children: | | | |
| Child Care and Development Block Grant | 93.575 | N/A | 706,369 |
| Subtotal U.S. Department of HHS | | | <u>18,106,276</u> |
| U.S. Department of Labor | | | |
| Passed through the Labor Development Administration/Workforce Investment Act Cluster: | | | |
| Workforce Investment Act - Adult | 17.258 | | 916,359 |
| Workforce Investment Act - Youth | 17.259 | | 799,900 |
| Workforce Investment Act - Dislocated | 17.278 | | 381,945 |
| Subtotal U.S. Department of Labor | | | <u>2,098,204</u> |
| U.S. Department of Transportation | | | |
| Federal Transit Formula Grant (Urbanized Area Formula Program) | 20.507 | | 325,529 |
| Subtotal U.S. Department of Transportation | | | <u>325,529</u> |
| U.S. Department of Agriculture | | | |
| Pass-through Education Department: | | | |
| Child and Adult Care Food Program | 10.558 | N/A | 1,406,985 |
| Subtotal U.S. Department of Agriculture | | | <u>1,406,985</u> |
| TOTAL | | | <u>\$ 42,912,406</u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Municipality of Bayamón's federal award programs presented on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

| | <u>Expenditures</u> |
|--|----------------------------|
| Total federal expenditures per schedule | \$ <u>42,912,406</u> |
| Federal expenditures per basic financial statements included within: | |
| Housing and Urban Development Programs | \$ 20,975,412 |
| Health and Human Services Programs | 18,106,276 |
| Federal expenditures included in other governmental funds | <u>3,830,718</u> |
| Total | \$ <u>42,912,406</u> |

3. LOAN OUTSTANDING

At June 30, 2015, the Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the Loan Guarantee Assistance was \$19,500,000.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated February 12, 2016. The report on the governmental activities was qualified because the management has not recorded the deferred outflows/inflows of resources, and net pension liability, and has not recorded an expense for the current period change in that liability.

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.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness as item 2015-001.

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 2015-001.

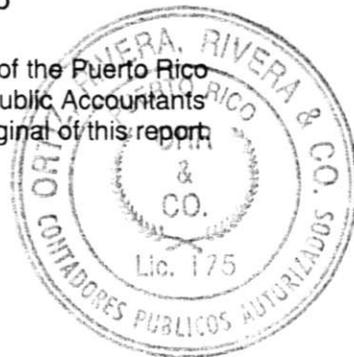
Purpose of this Report

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.

San Juan, Puerto Rico
February 12, 2016

Ortiz, Rivera, Rivera & Co.

The stamp E210230 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Mayor
and Municipal Legislature
Municipality of Bayamón
Bayamón, Puerto Rico

Report on Compliance for each Major Federal Program

We have audited Municipality of Bayamón' compliance with the types of compliance requirements described in the *OMB* Compliance Supplement that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2015. Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-002. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Municipality 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 Municipality'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 OMB Circular A-133, 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 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 compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant*

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

Our consideration of internal control over compliance was for the limited purpose described in the 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 may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ortiz, Rivera, Rivera & Co.

San Juan, Puerto Rico
February 12, 2016

The stamp E210231 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:

Governmental activities: Qualified opinion

Governmental funds: Unmodified opinion

Internal control over financial reporting:

Material weakness (es) identified? X Yes No

Significant deficiency (ies) identified? Yes X None
Reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

Material weakness (es) identified? Yes X No

Significant deficiency (ies) identified? Yes X None
Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133? X Yes No

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Programs or Cluster</u> |
|---------------------|--|
| 10.558 | Child and Adult Care Food Program |
| 14.871 | Section 8-Housing Choice Vouchers |
| 93.600 | Head Start Program |
| 17.258 | Workforce Investment Act-Adult |
| 17.259 | Workforce Investment Act-Youth |
| 17.278 | Workforce Investment Act-Dislocated |
| 14.218 | Community Development Block Grant |
| 93.569 | Community Service Block Grant |

Dollar threshold used to distinguish between type A and type B programs:
\$1,287,372

Audited qualified as low-risk auditee? X Yes No

II. FINANCIAL STATEMENTS FINDINGS

2015-001: Implementation of GASB 68

Condition

Management has not recorded the deferred inflows/outflows of the resources, and net position liability related to pensions in governmental activities and, has not recorded and expense for the current period change in that liability.

Criteria

Statement No. 68 of the Government Accounting Standard Board, *Accounting and Financial Reporting for Pensions*, required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). The employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan. Pension amounts to be recognized by employers include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. To the extent that a long-term obligation to provide pension benefits (that

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

is, total pension liability) is larger than the value of the assets available in the plan to pay pension benefits, there is a collective net pension liability for which each employer will need to report its proportionate share in their financial statements.

Cause

The Employees' Retirement System of the Government of Puerto Rico did not provide the data related to pension expense and obligation change attributable to the Municipality.

Recommendation

Obtain the pension data from the Employees' Retirement System of the Government of Puerto Rico.

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Child and Adult Care Food Program – CFDA No. 10.558

• **2015-002: Cash Management**

Condition

The Municipality's internal control over compliance with the cash management requirements of the federal program are not effective since it is holding excessive cash balances in its bank account.

Criteria

The 45 CFR 92.20 (b)(7) establishes that the federal funds recipient will adopt the necessary policies and procedures to minimize the time between the receipt of funds and the disbursements for expenditures.

Cause

The Municipality has not closed the following program years, 2002-2003, 2003-2004 and 2004-2005. The Municipality has not investigated the reasons why the invoices have not been received for the payables encumbered in order to

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

determine whether to issue the corresponding payment or to credit the federal program for amounts that will not be paid.

Effect

The program is not in compliance with federal regulations, which could result in disallowed costs by the federal awarding agency.

Questioned Costs

None

Recommendation

The Program should perform the closeout procedures and reimburse to the Council the amounts received in excess.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF BAYAMÓN
SCHEDULE OF STATUS OF PRIOR YEAR
AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The Municipality has no prior year findings and questioned costs to give follow up.

CORRECTIVE ACTION PLAN

February 12, 2016

Cognizant or Oversight Agency for Audit:

Municipality of Bayamón respectfully submits the following corrective action plan for the year ended June 30, 2015

Name and address of independent public accounting firm: Ortiz, Rivera, Rivera & Co., Suite 152, PO Box 70250, San Juan, Puerto Rico 00936-7250.

Audit period: Fiscal year ended June 30, 2015

Ortiz
The findings from the June 30, 2015 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FEDERAL AWARD PROGRAM AUDITS

Cash Management- CFDA No. 10.558

Reportable condition: See condition 2015-002

Recommendation

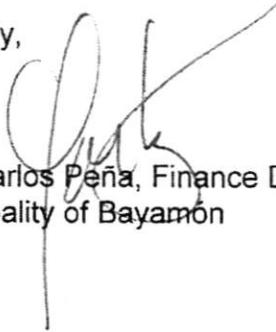
The Program should perform the closeout procedures and reimburse to the Council the amounts received in excess.

Management response

The Municipality has a procedure to request funds for immediate needs. We made progress in our effort to improve our payments and cash process in order to comply with the recommendations and we will continue doing so in order to fully comply

If the Cognizant or Oversight Agency for Audit has questions regarding this plan, please call CPA Carlos Peña, Finance Director, at (787) 785-6360.

Cordially,

A handwritten signature in black ink, appearing to be 'CPA Carlos Peña', written over the typed name.

CPA Carlos Peña, Finance Director
Municipality of Bayamón