

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

MUNICIPIO DE CABO ROJO
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015

Oficina de Asesoramiento
de Asuntos Municipales
16-04-1662
16 APR - 1 PM 2:39

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

**BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS
AND INFORMATION REQUIRED BY THE SINGLE AUDIT ACT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

O.C.A.M.
AREA DE ASESORAMIENTO
GERENCIAL Y FISCAL
16 APR - 1 PM 4:07

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
 BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND INFORMATION
 REQUIRED BY THE SINGLE AUDIT ACT
 FISCAL YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

	Pages
<u>PART I – FINANCIAL:</u>	
Independent Auditors' Report	1-5
Required Supplementary Information (Part I): Management's Discussion and Analysis	6-13
<u>BASIC FINANCIAL STATEMENTS:</u>	
GOVERNMENTAL WIDE FINANCIAL STATEMENTS:	
Statement of Net Position	14
Statement of Activities	15
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS:	
Balance Sheet	16
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position.....	19
Notes to the Basic Financial Statements	20-63
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	64
Notes to Budgetary Comparison Schedule – General Fund	65
Supplementary Information:	
Financial Data Schedule.....	66-68

Oficina del Comisionado
 de Asuntos Municipales
 16 APR - 1 PM 2:39

Viviana Vélez Carrasquillo

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

Report on the Financial Statements

I have audited the accompanying financial statements of each major fund, and the aggregate remaining fund information of the Municipality of **Cabo Rojo**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not maintain complete, updated and accurate accounting records that supports the amounts presented as capital assets and its related accumulated depreciation, in the governmental activities. I was unable to satisfy myself about such balances through alternate procedures. Therefore, I was unable to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$83,007,061 net of accumulated depreciation of \$39,255,812 and the amount of depreciation expense stated at \$3,654,890 reported in the accompanying statement of activities for the year then ended. In addition, the expenses and the net result of operations reported in the accompanying statement of activities are also misstated for amounts that could not be determined for the fiscal year ended June 30, 2015.

The Municipality did not comply with the requirements established by GASB No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environment Protection Agency in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. At June 30, 2015, the accompanying statement of net position include a liability of \$7,766,823 for closure and post closure care costs not based on a formal study of the actual landfill available and used capacity. Because, of the inadequacy of the accounting records, I was unable to form an opinion regarding the liability for closure and post closure costs of the landfill.

As discussed in Note 10 to the financial statements, management has not recorded the proportionate share of the net pension liability of its participation in the State Employee Retirement System, the related deferred outflows of resources, inflows of resources in the governmental activities. Also, the Municipality recorded the required annual contributions to the plan as pension expense. In addition, the Municipality did not made the appropriate disclosures in the notes to the financial statements related to the pension plan. Accounting principles generally accepted in the United States of America require that governments participating in a cost sharing pension plan recognize a liability for the proportionate share of the net pension liability and the effect of the current period changes must be recognized as pension expense during the current period in accordance with GASB Statement 68. Recognition of these amounts would affect the deferred outflows of resources, deferred inflows of resources, pension expense and the net position of the governmental activities. The amount by which this departure would affect the deferred outflows of resources, deferred inflows of resources, pension expense and the net position of the governmental activities has not been determined.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Government Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities. Accordingly, I do not express, an opinion on the financial position of the governmental activities of the Municipality at June 30, 2015, or the changes in financial position, thereof for the year then ended.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Qualified Opinion on the General Fund and the Debt Service Fund

The Municipality recorded an interfund operating transfer and the corresponding due to/ due from between the Debt Service Fund and the General Fund in the amount of \$3,311,921, based on the assumption that the Debt Service Fund maintain an excess of cash surplus. Law Num. 64, of July 3, 1996, as amended, states that the Municipalities have to request the cash surplus, annually, to the fiscal agent, which is the Government Development Bank of Puerto Rico (GDB). In addition, Law Num. 64, of July 3, 1996, as amended, states that the GDB, determine the cash surplus of each Municipality, and if there is any surplus, the GDB is obligated to transfer such surpluses to the Municipalities. During the fiscal year 2014-2015, the Municipality did not requested to the GDB, the cash surplus maintained in the Debt Service Fund. Also, there was not a written notification from the GDB officials, certifying that the Municipality maintain a cash surplus in its Debt Service Fund, available to be transfer to the General Fund of the Municipality. Finally, the Municipality did not include adequate disclosure related to this interfund transaction in the notes to the financial statements.

Accounting principles generally accepted in the United States of America require that the financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Applying these generally accepted accounting principles would affect the interfund balances and the net change of the General Fund and the Debt Service Fund. If the Municipality's General Fund and Debt Service Fund financial statements were adjusted to correct this departure, the interfund balance (due from) and the net change of the General Fund would have decreased by \$3,311,921. Also, the interfund balance (due to) and the net change of the Debt Service Fund would have decrease and increase, respectively, by \$3,311,921.

Qualified Opinion

In my opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion on the General Fund and Debt Service Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and Debt Service Fund of the Municipality, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 6 through 13 and 64 through 65 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

The Municipality has omitted the required supplementary information related to the employees' retirement system information required by the accounting principles generally accepted in the United States of America. Such missing information although not a part of the basic financial statements, is required by the Governmental Accounting Standard Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. My opinion on the basis financial statements is not affected by this missing information.

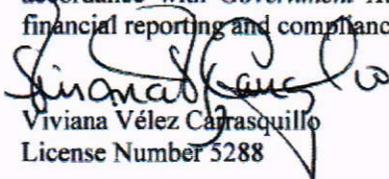
Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The Financial Data Schedule is presented for purpose of additional analysis as required by the U.S. Department of Housing and Urban Development. The 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 also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 30, 2016, on my consideration of the Municipality's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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's internal control over financial reporting and compliance.


Viviana Vélez Carrasquillo
License Number 5288

Carolina, Puerto Rico
March 30, 2016



**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2015**

Within this section of the Municipality of Cabo Rojo's financial statements, the Municipality provides a narrative discussion and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. The Municipality's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Municipality's primary government.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality of Cabo Rojo exceeded deferred inflows and liabilities, at the close of the most recent fiscal year, by \$46,618,167 (Net position).
- The capital assets decreased by \$3,382,615 as compared to prior year, mainly due to an increase in accumulated depreciation of municipal properties.
- The Municipality's governmental funds reported total ending fund balance of \$8,589,832 this year. This amount represents a decrease of \$4,991,656 during the current year as compared to the prior year ending fund balance of \$13,581,488. The unassigned fund deficit of the General Fund for fiscal year 2015 amounts to (\$6,707,266).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the users of the financial statements with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

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

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

The Municipality's activities are principally supported by taxes and intergovernmental revenues (governmental activities). Such governmental activities are classified as general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule between final budgeted amounts and actual amounts for the General Fund.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALISYS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

ANALYSIS OF GOVERNMENT WIDE FINANCIAL STATEMENTS

Net Position - The condensed statement of net position of the Municipality as of June 30, 2014 and 2015 is presented below:

Table 1

	2015	2014	Change	% Change
Current and other assets, net of accumulated amortization	\$ 19,342,648	\$ 25,831,116	\$ (6,488,468)	-25.12%
Capital assets, net of accumulated depreciation	83,007,061	86,389,676	(3,382,615)	-3.92%
Total assets	\$ 102,349,709	\$ 112,220,792	\$ (9,871,083)	-8.80%
Long term liabilities	47,249,560	49,616,945	(2,367,385)	-4.77%
Other liabilities	8,481,982	6,801,850	1,680,132	24.70%
Total liabilities	\$ 55,731,542	\$ 56,418,795	\$ (687,253)	-1.22%
Deferred inflows of resources	\$ -	\$ 160,379	\$ (160,379)	-100.00%
Net position:				
Invested in capital assets, net of related debt	49,300,227	50,758,787	(1,458,560)	-2.87%
Restricted	15,297,098	60,906,575	(45,609,477)	-74.88%
Unrestricted	(17,979,158)	(56,023,744)	38,044,586	67.91%
Total net position	\$ 46,618,167	\$ 55,641,618	\$ (9,023,451)	-16.22%

As noted above, the Municipality total assets decreased by \$9,871,083 while the total liabilities decreased by \$687,253 mainly due by the increase of accumulated depreciation of capital assets and the increase of current liabilities. As a result, the net position decreased by \$9,023,451.

Net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position still strong in the amount of \$46,618,167 as of June 30, 2015, as compared to the net position of \$55,641,618 of the previous fiscal year.

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

The amounts restricted for debt service represent another portion of the net position, and these are resources subject to external restrictions for the purposes explained above.

An additional portion of the Municipality's net position is the unrestricted deficit. This is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences, landfill closure and post-closure care costs, claims and judgments and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operation.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

Activities

The condensed statement of activities of the Municipality for the years ended June 30, 2015 and 2014 is presented below. As noted therein, the Municipality's net position decreased by approximately \$9,023,521.

The Municipality's expenses cover a range of services. The largest expenses during fiscal year 2015 were for activities related to general government \$10,202,102, urban and economic development \$7,677,351, and health and sanitation \$4,131,226.

Table 2

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Program revenues:				
Charges for services	\$ 513,319	\$ 704,947	\$ (191,628)	-27.18%
Operating grants and contributions	2,218,941	2,953,859	(734,918)	-24.88%
Capital grants and contributions	1,069,340	1,151,553	(82,213)	-7.14%
General revenues:				
Property taxes	\$ 9,753,502	\$ 11,298,256	\$ (1,544,754)	-13.67%
Municipal license taxes	2,316,882	2,328,532	(11,650)	-0.50%
Construction excise taxes	275,207	451,559	(176,352)	-39.05%
Sale tax	1,900,573	2,673,039	(772,466)	-28.90%
Grants & contributions	5,283,053	4,171,583	1,111,470	26.64%
Unrestricted interest on deposit	213,142	170,471	42,671	25.03%
Miscellaneous	523,739	1,717,848	(1,194,109)	-69.51%
Total revenues:	<u>\$ 24,067,698</u>	<u>\$ 27,621,647</u>	<u>\$ (3,553,949)</u>	<u>-12.87%</u>
Expenses:				
General government	\$ 10,202,032	\$ 10,072,112	\$ 129,920	1.29%
Urban and economic development	7,677,351	8,497,179	(819,828)	-9.65%
Public safety	3,965,620	2,174,144	1,791,476	82.40%
Health and sanitation	4,131,226	4,204,404	(73,178)	-1.74%
Culture, recreation and education	1,541,756	2,558,208	(1,016,452)	-39.73%
Public housing and welfare	3,576,832	2,439,928	1,136,904	46.60%
Interest on long-term obligations	1,996,332	1,984,360	11,972	0.60%
Total expenses:	<u>\$ 33,091,149</u>	<u>\$ 31,930,335</u>	<u>\$ 1,160,814</u>	<u>3.64%</u>
Change in net position	\$ (9,023,451)	\$ (4,308,688)	\$ (4,714,763)	109.42%
Net position at beginning of fiscal year	<u>55,641,618</u>	<u>59,950,306</u>	<u>(4,308,688)</u>	<u>-7.19%</u>
Net position at end of year	<u>\$ 46,618,167</u>	<u>\$ 55,641,618</u>	<u>\$ (9,023,451)</u>	<u>-16.22%</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALISYS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

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

At the end of the current fiscal year, the Municipality's governmental funds reported ending fund balances of \$8,589,832, which represents a decrease of approximately \$5.0 million in comparison with prior fiscal year balance of \$13,581,488. For the end of fiscal year 2015 the Municipality of Cabo Rojo presents an unassigned fund balance of (\$6,707,266). The remainder of the fund balance is classified as restricted to indicate that it is not available for new spending because it has already been reserved to: a) capital projects \$1,644,666; b) debt service \$880,167 and c) other specified purposes \$12,772,265.

<u>Table 3</u> <u>Balance Sheet</u>	<u>2015</u>	<u>2014</u>
Assets:		
Total assets – Major Funds	\$ 16,525,179	\$ 18,239,525
Total assets – Other Funds	6,651,419	5,682,055
Combined total assets	<u>\$ 23,176,598</u>	<u>\$ 23,921,580</u>
Liabilities:		
Total liabilities – Major Funds	14,055,870	9,348,239
Total liabilities – Other Funds	443,061	637,025
Combined total liabilities	<u>\$ 14,498,931</u>	<u>\$ 9,985,264</u>
Deferred Inflows of Resources:		
Total inflows – Major Funds	87,835	354,828
Total Inflows – Other Funds	-	-
Combined total deferred inflows of resources	<u>\$ 87,835</u>	<u>\$ 354,828</u>
Fund Balances:		
Restricted– Major Funds	9,088,740	11,768,194
Restricted– Other Funds	6,208,358	5,045,030
Unassigned	(6,707,266)	(3,231,736)
Combined total fund balances	<u>\$ 8,589,832</u>	<u>\$ 13,581,488</u>
Total liabilities and fund balances	<u>\$ 23,176,598</u>	<u>\$ 23,921,580</u>

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

Table 4 Changes in Fund Balances	2015	2014
Revenues:		
Total revenues – Major Funds	\$ 22,696,056	\$ 25,503,738
Total revenues – Other Funds	3,531,604	2,709,860
Combined total revenues	\$ 26,227,660	\$ 28,213,598
Expenditures:		
Total expenditures – Major Funds	28,540,228	27,601,843
Total expenditures – Other Funds	2,679,088	3,373,486
Combined total expenditures	\$ 31,219,316	\$ 30,975,329
Other financing sources (uses) :		
Other financing sources – Major Funds	(420,313)	6,135,196
Other financing uses – Other Funds	420,313	96,804
Combined other financing sources, net	\$ -	\$ 6,232,000
Net changes in fund balance	(4,991,656)	3,470,269
Fund Balance – beginning	13,581,488	10,111,219
Fund Balance – ending	\$ 8,589,832	\$ 13,581,488

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedules are provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budgets, the final revised budget, actual results, other financing source available for spending, other financing uses, and variance between the final budget and actual results for the general revenue fund. **Table 5** summarizes the results of the General Fund's Budgetary Comparison Schedule:

Table 5	Final Budget	Actual Amounts	Variance
Total revenues and other financing sources available for spending	\$ 21,852,211	\$ 17,883,581	\$ (3,968,630)
Total expenditures, and other financing uses	21,852,211	21,785,844	(66,367)
Excess or deficiency	\$ -	\$ (3,902,263)	\$ (3,902,263)

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALISYS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

The original and the final budget of the General Fund for the fiscal year ended June 30, 2015 amounted to \$21,852,211. Over the course of the fiscal year, the Municipality revised the General Fund's budget in order to include increases and decreases in expenditures that were identified based on current events that affected the Municipality's finances. The laws and regulations of the Commonwealth mandate a balanced budget.

The total actual revenues (budgetary basis) of the General fund with other financing sources available for spending in the fiscal year ended June 30, 2015 were \$17,883,581, which is \$3,968,630 less than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the General Fund with other financing uses in the fiscal year ended June 30, 2015 were \$21,785,844, which is \$66,367 less than the budgeted expenditures.

CAPITAL ASSETS

The Municipality's investment in capital assets for its governmental activities as of June 30, 2015 amounted to approximately \$49,300,227 (net of related debt). This investment in capital assets includes land, building, equipment, improvements, vehicles, infrastructure and construction in progress.

Actual expenditures to purchase or construct capital assets for the fiscal year ended June 30, 2015 was \$272,275 while depreciation charges amounted to \$3,654,890 for the fiscal year. The ending balance reported on capital assets amounted to \$122,262,873 by the end of year, with depreciation amounting to \$39,255,812.

Table 6

Cost basis of capital assets and the accumulated depreciation and amortization:

	Cost Basis of Capital Assets at 06/30/2015	Accumulated Depreciation at 06/30/2015
Non-depreciable assets		
Land	\$ 10,381,090	\$ -
Construction in progress	13,806,125	-
Depreciable assets		
Land improvements	6,625,594	2,821,682
Buildings, structures and improvements	51,298,409	12,724,080
Infrastructure	26,301,741	14,402,322
Machinery and equipment	3,818,309	7,498,940
Licensed vehicles	10,031,605	1,808,788
Total:	\$ 122,262,873	\$ 39,255,812

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
MANAGEMENT'S DISCUSSION AND ANALISYS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2015**

LONG-TERM DEBT

At June 30, 2015, the Municipality had total of \$47,249,560 in general obligations and others outstanding debts, as shown in **Table 7**. Of this amount, \$34,917,000 comprises debt backed by the full faith and credit of the government and \$12,332,560 is other obligations.

Long Term Debts	Amount
General obligations bonds and notes	\$ 34,917,000
Others	12,332,560
Total Long Term Debts	\$ 47,249,560

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which is composed of 16 members, excises the legislative power.

As previously discussed in this report, the Municipality provides a full range of services to its community in general. The Municipality's principal sources of revenue are property taxes, municipal license taxes, contributions by the state government, and Federal Grants.

The Municipality has a moderate industrial base, which includes factories and industries, wholesalers, retail stores, financial institutions, restaurants, among others. This industrial base has maintained almost the same level during the most recent years.

REQUEST FOR INFORMATION

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

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
STATEMENT OF NET POSITION
FISCAL YEAR ENDED JUNE 30, 2015

ASSETS	Governmental Activities
Cash in commercial banks	\$ 403,400
Account receivable, net:	
Property taxes	1,587,991
Grants and contributions	339,234
Sales taxes	18,167
Others	13,517
Restricted assets:	
Cash and cash equivalents	7,711,870
Cash and cash equivalents with fiscal agent	9,158,855
Investments held in commercial bank	109,614
Capital assets:	
Non-depreciable	24,187,215
Depreciable, net accumulated depreciation of \$39,255,812	58,819,846
Total assets	<u>102,349,709</u>
LIABILITIES	
Account payable and accrued liabilities	5,681,430
Due to other agencies	470,089
Unearned revenue	1,326,456
Accrued interest	1,004,007
Non-current liabilities:	
Due within one year	3,903,299
Due after one year	43,346,261
Total liabilities	<u>55,731,542</u>
NET POSITION	
Investment in capital assets, net of related debt	49,300,227
Restricted for:	
Capital purposes	1,644,666
Debt service	880,167
Other specified purposes	12,772,265
Unrestricted	(17,979,158)
Total net position	<u>\$ 46,618,167</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2015

FUNCTION/PROGRAM	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES/REVENUE) AND CHANGES IN NET POSITION
Governmental activities:					
General government	\$ 10,202,032	\$ 151,126	\$ -	\$ -	\$ (10,050,906)
Urban and economic development	7,677,351	156,967	441,623	236,000	(6,842,761)
Public safety	3,965,620	26,083	127,226	-	(3,812,311)
Health and sanitation	4,131,226	112,381	-	755,840	(3,263,005)
Culture, recreation and education	1,541,756	50,628	206,919	77,500	(1,206,709)
Public housing and welfare	3,576,832	16,134	1,443,173	-	(2,117,525)
Interest on long-term obligations	1,996,332	-	-	-	(1,996,332)
Total governmental activities:	<u>\$ 33,091,149</u>	<u>\$ 513,319</u>	<u>\$ 2,218,941</u>	<u>\$ 1,069,340</u>	<u>(29,289,549)</u>
General revenues					
Taxes:					
Property					9,753,502
Municipal license					2,316,882
Construction					275,207
Sales					1,900,573
Total taxes					<u>14,246,164</u>
Grant and contributions, not restricted to specified programs					5,283,053
Unrestricted interest on deposit					213,142
Miscellaneous					523,739
Total general revenues:					<u>20,266,098</u>
Net change in position					(9,023,451)
Net position, beginning of year					55,641,618
Net position, end of year:					<u>\$ 46,618,167</u>

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
BALANCE SHEET – GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2015

	<u>Major Governmental Funds</u>				
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Commonwealth Legislative Resolutions</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Investment	\$ 109,614	\$ -	\$ -	\$ -	\$ 109,614
Cash in commercial bank					
Account receivable, net of allowance of uncollectable accounts:					
Property tax	409,873	509,928	-	-	919,801
Municipal license taxes	-	-	-	-	-
Sale tax	18,167	-	-	-	18,167
Grant and contributions	230,335	-	-	108,899	339,234
Due to other fund	3,493,080	-	799,565	209,495	4,502,140
Other	-	-	-	13,517	13,517
Restricted assets:					
Cash and cash equivalents	403,400	-	4,014,160	3,697,710	8,115,270
Cash in fiscal agent	46,912	6,490,145	-	2,621,798	9,158,855
Total Assets	<u>\$ 4,711,381</u>	<u>\$ 7,000,073</u>	<u>\$ 4,813,725</u>	<u>\$ 6,651,419</u>	<u>\$ 23,176,598</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued liabilities	\$ 5,110,295	\$ -	\$ 26,453	\$ 193,343	\$ 5,330,091
Intergovernmental payable	463,700	-	-	6,389	470,089
Due to other funds	1,009,060	3,311,921	-	181,159	4,502,140
Unearned revenues	1,326,456	-	-	62,170	1,388,626
Matured bonds due and payable	-	2,807,985	-	-	2,807,985
Total liabilities	<u>7,909,511</u>	<u>6,119,906</u>	<u>26,453</u>	<u>443,061</u>	<u>14,498,931</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues:					
Grant and contributions	87,835	-	-	-	87,835
Total deferred inflows of resources:	<u>87,835</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,835</u>
FUND BALANCE					
Restricted					
Capital project				1,644,666	1,644,666
Debt service		880,167			880,167
Other specified purposes	3,421,301		4,787,272	4,563,692	12,772,265
Unassigned	(6,707,266)	-	-		(6,707,266)
Total fund balance:	<u>(3,285,965)</u>	<u>880,167</u>	<u>4,787,272</u>	<u>6,208,358</u>	<u>8,589,832</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:	<u>\$ 4,711,381</u>	<u>\$ 7,000,073</u>	<u>\$ 4,813,725</u>	<u>\$ 6,651,419</u>	<u>\$ 23,176,598</u>

See notes to the basic financial statements.

**COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION.
FISCAL YEAR ENDED JUNE 30, 2015**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 8,589,832

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 83,007,061
- Deferred (unavailable) inflows in the governmental funds that are recognized as revenues in the statements of activities 150,005
- Intergovernmental receivables related to Property Tax that are not considered available financial resources at fiscal year-end, therefore, are not reported in the governmental funds. 668,190

The following liabilities are not due (mature) in the current fiscal year, therefore are not reported in the governmental funds:

- Accrued employees' Christmas bonus (351,339)
- Bonds payable (33,102,000)
- Accrued interest payable (11,022)
- Notes payable (395,878)
- Landfill closure and post closure care cost (7,766,823)
- Compensated absences (4,169,859)

NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 46,618,167**

See notes to the basic financial statements

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

	<u>Major Governmental Funds</u>				
	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Commonwealth Legislative Resolutions</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Taxes:					
Sale tax	\$ 1,760,696	\$ 139,877	\$ -	\$ -	\$ 1,900,573
Property tax	8,036,254	3,832,665	-	-	11,868,919
Municipal license tax	2,316,882	-	-	-	2,316,882
Construction excise tax	275,207	-	-	-	275,207
Charges for services	479,979	-	-	33,340	513,319
Grant and contributions	5,084,702	-	202,876	3,328,301	8,615,879
Interest on deposits	109,671	-	-	103,471	213,142
Miscellaneous	457,247	-	-	66,492	523,739
Total revenues:	<u>18,520,638</u>	<u>3,972,542</u>	<u>202,876</u>	<u>3,531,604</u>	<u>26,227,660</u>
EXPENDITURES:					
Current:					
General Government	9,460,852	-	-	139,095	9,599,947
Urban and economic development	5,790,383	-	566,138	1,098,299	7,454,820
Public safety	2,142,613	-	-	99,337	2,241,950
Health and sanitation	3,852,697	-	-	9,167	3,861,864
Culture, recreation and education	1,193,499	-	-	141,113	1,334,612
Public housing and welfare	1,314,972	-	286,430	955,114	2,556,516
Debt service:					
Principal	-	1,901,000	-	-	1,901,000
Interest	-	1,996,332	-	-	1,996,332
Capital outlays	35,312	-	-	236,963	272,275
Total expenditures:	<u>23,790,328</u>	<u>3,897,332</u>	<u>852,568</u>	<u>2,679,088</u>	<u>31,219,316</u>
Excess (deficiency) of revenues over (under) expenditures:	<u>(5,269,690)</u>	<u>75,210</u>	<u>(649,692)</u>	<u>852,516</u>	<u>(4,991,656)</u>
Other financing sources (uses):					
Transfer-In from other fund	5,504,916	-	248,603	40,852	5,794,371
Transfer-Out to other fund	(289,455)	(5,043,751)	-	(461,165)	(5,794,371)
Total other financial sources (uses):	<u>5,215,461</u>	<u>(5,043,751)</u>	<u>248,603</u>	<u>(420,313)</u>	<u>-</u>
Net change in fund balance	(54,229)	(4,968,541)	(401,089)	432,203	(4,991,656)
Fund balance (deficit) at beginning of fiscal year, as restated	(3,231,736)	5,848,708	5,188,361	5,776,155	13,581,488
Fund balance (deficit) at end of fiscal year	<u>\$ (3,285,965)</u>	<u>\$ 880,167</u>	<u>\$ 4,787,272</u>	<u>\$ 6,208,358</u>	<u>\$ 8,589,832</u>

Ok
Rubio
07/09/15

See notes to the basic financial statements.

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

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS **\$ (4,991,656)**

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 costs of those assets are allocated over their estimated useful lives as amortization expense. This is the amount by which depreciation and amortization exceeded capital outlays (3,654,890)

Repayment of principal of long term obligation is expenditure in the governmental funds but the repayment reduces long term liabilities in the statement of net position 2,173,275

The landfill closure and post closure care costs has been adjusted in accordance with amortization schedule prepared recently. This adjustment does not affect expenditures in the governmental funds (221,909)

Certain adjustments on interest reported in the statement of activities are not considered to affect current financial resources, therefore are not presented in the governmental funds (266,331)

Some revenues recorded in the statement of activities do not provide current financial resources; therefore, they are not presented in governmental funds statements. This revenue is measurable but not available at end of fiscal year. (2,159,962)

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in the statement of governmental funds – Christmas bonus payable, compensated absences, obligation under capital leases and intergovernmental payable 98,022

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (9,023,451)**

See notes to the basic financial statements.

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2015

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Municipality of Cabo Rojo (“the Municipality”) was constituted on 1771 in the Commonwealth of Puerto Rico (the Commonwealth). **The Municipality** has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act no. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (the Act). **The Municipality** is one of seventy-eight municipalities legally separated from the Commonwealth’s government.

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

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture, recreation, education, urban development, economic development, and many other fiscal, general and administrative services.

Reporting model

The accompanying basic financial statements present the financial position and the results of operations of **the Municipality** as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applicable to governmental units.

According to the financial reporting model established by GASB No. 34, the required basic financial statements presentation applicable to **the Municipality** is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI). RSI consists of: (1) Management’s Discussion and Analysis (MD&A) and (2) budgetary comparison schedule – general fund. RSI is information presented along with, but separate from, **the Municipality’s** basic financial statements.

1. MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of **the Municipality’s** financial activities for the fiscal year ended June 30, 2015, based on **the Municipality’s** knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control **the Municipality’s** operations.
2. Budgetary comparison schedule – general fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the general fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting entity

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

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality. In accordance with GASB No. 14 and GASB No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow: (1) The organization is legally separate entity; (2) The Municipality appoints a voting majority of the organization's board; (3) There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality is able to impose its will on the organization.

Organizations meeting the above criteria are included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are considered to be blended component units of the Municipality: (1) The organization's governing body is substantively the same as the Municipality's governing body and (a) there is a financial benefit or burden relationship between the Municipality and the organization, or (b) management of the Municipality has operational responsibility for the organization; (2) The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it; (3) The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their exclusion would render the financial statements misleading. This determination is bases on the nature and significance of the organization's relationship with the Municipality.

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

Financial Statements presentation

The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

Government-wide financial statements

The governmental-wide financial statements ("GWFS") are composed of the statement of net position and, the statement of activities. These financial statements report information of all governmental activities of **the Municipality** as a whole. These statements are aimed at presenting a broad overview of **the Municipality's** finances by reporting its financial position and results of operations using

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

methods that are similar to those used by most private businesses. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

The Statement of Net Position presents the reporting entities' assets, deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position (equity) and/or accumulated deficit. This statement assists management in assessing the level of services that can be provided by **the Municipality** in the future and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which **the Municipality** has invested in capital assets and discloses legal and contractual restrictions on resources. Net Position is reported in three categories:

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

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

The accompanying statement of activities presents **the Municipality's** results of operations by showing, how **the Municipality's** assets and/or liabilities changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of **the Municipality's** functions, programs or other services either contributes to or draws from **the Municipality's** general revenues (property taxes, municipal license taxes, construction excise taxes, etc.).

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education and (6) public housing and welfare. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

- Municipal legislature
- Mayor's office
- Department of finance and budget
- Department of human resources
- Department of municipal secretary
- Department of internal audit

Urban and economic development:

- Department of public works
- Department of tourism

Public safety:

- Department of municipal police
- Department of emergency management

Health and sanitation:

- Department of health
- Department of sanitation

Culture, recreation and education

- Department of recreation and sports

Public housing and welfare:

- Department of elderly affairs
- Department of federal programs

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Charges for services – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. Also, include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- Program-specific operating and capital grants and contributions – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to **the Municipality**. They are reported net of estimated uncollectible amounts.

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

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

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

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

The Municipality has no fiduciary activities, which are those in which it would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, **the Municipality** has no operations or

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Governmental fund financial statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, deferred outflow of resources, liabilities, deferred inflow of resources and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

The accompanying governmental fund financial statements ("GFFS") are composed of; the balance sheet - governmental funds, and, the statement of revenues, expenditures and changes in fund balances - governmental funds.

These financial statements report the financial position and results operations of **the Municipality's** governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on; **the Municipality's** major governmental funds, as defined below, the fiscal accountability and, the individual parts of **the Municipality's** government. Fiscal accountability represents **the Municipality's** responsibility to justify that its actions in the current fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term (generally one fiscal year).

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by **the Municipality**. For financial reporting purposes, **the Municipality** reports its governmental funds within the following categories:

General Fund – is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Fund – is a governmental fund used to account for and report the proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Debt Service Fund – is a governmental fund used to account for and report for the accumulation of financial resources that are restricted for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and (2) certain special long-term obligations for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years.

Capital Projects Fund – is a governmental fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments). The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

The focus of the GFFS is on major governmental funds, which generally represent **the Municipality's** most important funds. Accordingly, **the Municipality** is required to segregate governmental funds between major and non-major categories within the GFFS. Major individual governmental funds are reported individually as separate columns in the GFFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

By definition, **the Municipality's** general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is reported as a major governmental fund in the GFFS if its total assets, liabilities, revenues or expenditures are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures for these purposes mean all expenditures, including operating and non-operating expenditures, except for other financing uses.

Based on the aforementioned criteria, **the Municipality's** major governmental funds reported in the accompanying GFFS are the following:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Commonwealth Legislative Resolutions Fund – This is the fund used to account for all the transactions of the state assignments by Legislature Resolutions. The primarily objectives of this assignments are the development of projects on communities, not-for-profit organizations and indirect assignment to persons of low and moderate income.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Debt Service Fund – This is the fund used to account for the accumulation of resources, from a portion of the property and sales taxes, for and the payment of general long-term debt principal, interest and related cost.

Measurement focus, basis of accounting and financial statements presentation

The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

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

In the case of imposed non-exchange revenue transactions (such as property taxes), which result from assessments made by **the Municipality** on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Meanwhile, and in accordance with GASB Statement 65, amount received in advance are recorded as deferred inflows of resources in the governmental funds balance sheet.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, **the Municipality** generally considers most revenues to be available if collected within 90 days after June 30, 2015, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows of resources at June 30, 2015.

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Deferred outflows of resources and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider, except time requirement, have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants).

Interest income is recorded when earned only if collected within 90 days after year-end since these revenues are considered both measurable and available at June 30, 2015.

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

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

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Validated purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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

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

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

Stewardship, compliance and accountability

Budgetary control

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

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

Budgetary accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The accompanying budgetary comparison schedule - general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of **the Municipality's** budgetary control at the legal level may be obtained from the budgetary liquidation report for the fiscal year ended June 30, 2015, which is prepared by **the Municipality's** Department of Finance and Budget. Copies of that report may be obtained by writing to **the Municipality's** Director of Finance and Budget.

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not legally required to prepare a budget. Also, the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Unrestricted and restricted deposits

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

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

Cash with fiscal agent in the general fund consist of surplus of operational loans. Cash with fiscal agent in the debt service funds consists principally of property and sales tax collections amounting to \$6,490,145. The reserve of funds required to the payment of principal and interest during a period of twelve (12) month from the end of fiscal year 2015 (\$3,688,152) are restricted for the payment of **the Municipality's** debt service, as required by law. Cash with fiscal agent recorded in the non-major governmental funds amounting to \$2,621,798 which is restricted for; the acquisition, construction or improvements of major capital assets.

Restricted cash in commercial banks for commonwealth legislative resolutions and other governmental funds, amounting to \$4,014,160 and \$3,697,710 respectively, are restricted, in most part, to finance the acquisition, construction and improvement of major capital assets.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts and notes receivable

In the accompanying GWFS, receivables consist of all revenues earned but not collected at June 30, 2015. Major receivable balances for the governmental activities include municipal license taxes, property taxes and intergovernmental receivables.

Tax receivables in the general fund represent uncollected property taxes and municipal license taxes. Restricted tax receivables in the debt service fund consist of uncollected property taxes, which are restricted for the payment of **the Municipality's** debt service, as established by law.

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

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

Capital assets

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

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

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

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	20-50
Infrastructure	20-40
Machinery and equipment	10
Licensed vehicles	5

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

Deferred outflows / inflows of resources

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

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

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred inflows of resources at the government-wide level arise only when **the Municipality** receives resources before it has a legal claim to them.

At June 30, 2015, the governmental funds present deferred inflows of resources.

Inventories

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

Compensated absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the government-wide statement of net position is limited to leave that; is attributable to services already rendered on or before June 30, 2015 and, is not contingent on a specific event (such as illness) that is outside the control of **the Municipality** and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to the employees' retirement systems and others).

The vacation policy of **the Municipality** provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Compensatory time is accumulated by employees at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed.

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

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term debt

The long-term liabilities reported in the accompanying statements of net position include **the Municipality's** bonds payable, notes payable, accrued compensated absences, and legal claims and judgments.

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

Accounting for pension costs

The Governmental Accounting Standards Board (GASB) issued its Statement No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27 ("GASB 68"), with new pension reporting requirements for employers. The provision of this Statement was effective for fiscal years ended June 30, 2015.

The Municipality is participant of the Employee's Retirement System of the Government of Puerto Rico (ERS). The structure of operation of the retirement system, in relation to municipal beneficiaries, requires that the municipal administration had received audited information from ERS to disclose future liabilities of **the Municipality** in relation to these benefits, which did not occur during the preparation of the financial statements of fiscal 2014-2015. As a result, the necessary information to meet the new requirements of GASB 68 could not be presented in this financial report.

The impact of this new requirements affects net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense; but is limited to the Government-wide and Proprietary Fund financial statements, and does not impact the modified accrual current resources focus of the General Fund, other governmental funds, or the budget-to-actual comparison.

For the above reason, **the Municipality** was limited to present their information on pension costs based on the provisions that previously required the GASB Statement No. 27.

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of **the Municipality** participate. **The Municipality** is considered a participant, and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to **the Municipality** in the accompanying basic financial statements.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

Risk management

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

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

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

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

The Municipality also obtains medical insurance coverage from several health insurance companies for its employees. Different health insurance coverage and premium options are negotiated each year by **the Municipality** on behalf of its employees. The current insurance policies have not been canceled or terminated at June 30, 2015. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, **the Municipality** has not settled claims that exceeded insurance coverage.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balances

According the provisions of GASB No. 54, the fund balances are reported in five categories:

- Nonspendable – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- Restricted – Amounts are restricted by external parties (creditors, grantors, contributors or law/regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- Committed – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- Assigned – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- Unassigned – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications 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 signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2015.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

When an expenditure is incurred for purposes 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.

Interfund transactions

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

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

Claims and judgements

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

Use of estimates

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

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Municipal solid waste landfill closure and post closure care cost

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

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

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

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

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

Recent adoption of accounting pronouncements

The Municipality adopted the following statements during year ended June 30, 2015:

GASB Statement No. 68 "*Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*". The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pension. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement will bring the effect of **GASB Statement No. 67** "*Financial*

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting for Pension Plans-an amendment of GASB Statement No. 25 into the accounting records of the individual agencies, component units and municipalities, whose employees participate in the Retirement Systems. Cost-sharing employers of the Retirement Systems would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement No. 67 based on their respective individual proportion to the collective net pension liability of all the governments participating. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).

This pronouncement requires that the presentation of its effects was part of the contents in the financial statement as of June 30, 2015. However, **the Municipality** was unable to meet these requirements due to lack of information that had to be submitted by the Employee's Retirement System of the Government of Puerto Rico (see Note 10).

Future adoption of accounting pronouncements

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

GASB Statement No. 72 *Fair Value Measurement and Application (Issued 2/15)*. The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15)*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15)*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15)*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77 *Tax Abatement Disclosures (Issued 08/15)*. The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pension Provided Through Certain Multiple-employer Defined Benefit Plans*. This statement addresses a practice issue regarding the scope and applicability of Statements No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pension provided through certain multiple-employer defined benefit pension plan and to state or local governmental employers whose employees are provided with such pension. Prior to the issuance of this statement, the requirements of Statements 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pension through pension plans that are administered through trust that meet the criteria in paragraph 4 of that statement. This Statement is not effective until fiscal year 2016. The impact of these statements on the Municipality's basic financial statements has not yet been determined.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participant. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purpose. An external investment pool qualified for that reporting if it meets all of the applicable criteria established in this Statement. The specified criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification and liquidity; (3) calculation and requirements of a shadow price. This statement is not effective until fiscal year 2016, except for certain provisions on portfolio qualify, custodial credit risk, and shadow pricing. The impact of these statements on the Municipality's basic financial statements has not yet been determined.

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

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

2. DEPOSITS

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

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

- Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, **the Municipality** has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, **the Municipality** is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, **the Municipality** is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, **the Municipality's** management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on **the Municipality's** deposits is considered low at June 30, 2015.
- Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. **The Municipality** manages its exposure to declines in fair values by; not including debt investments in its investments portfolio at June 30, 2015 limiting the weighted average maturity of its investments to periods of three months or less and keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates.
- Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, **the Municipality's** deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by **Municipalities** are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by **the Municipality** are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in **the Municipality's** name by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and unsecured. However, no losses related to defaults by GDB on deposit transactions have been incurred by **the Municipality** through June 30, 2015. **The Municipality's** management has concluded that at June 30, 2015, the custodial credit risk associated with **the Municipality's** cash is considered low.

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

2. DEPOSITS, (CONTINUED)

- Foreign exchange risk – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

Pursuant to the statement of investment guidelines for the government of the Commonwealth of Puerto Rico, **the Municipality** may invest in obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB.

The Municipality's bank balances in commercial banks of \$403,400 in the General Fund and \$4,014,160 in the Commonwealth Legislature Resolutions Fund were fully collateralized at June 30, 2015. In the Other Governmental Funds, there were deposits with commercial banks of \$3,697,710 that were fully collateralized

The deposits at GDB of \$46,912 in the General Fund, \$6,490,145 in the Debt Service Fund and the \$2,621,798 in Other Governmental Funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

Property Taxes Receivables

Property taxes receivable of \$409,873 and \$509,928 in the General Fund and Debt Service Fund, respectively, represents amounts collected in advance at June 30, 2015, by the Municipal Revenue Collection Center, but that had not been deposited in the accounts of the Municipality at the end of the fiscal year.

Sales Tax Receivables

As described below in Note 16, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20th day of each month based on tax collected in the preceding month. Therefore sales tax receivable of \$18,167 in General Fund represents the amounts due by the taxpayers at June 30, 2015.

Intergovernmental Receivables

Receivables in the General Fund represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

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

3. RECEIVABLES (CONTINUED)

Description	Amount
State Department of Labor (Law 52)	\$ 142,500
State Department of Treasury (Christmas Bonus Reimbursement)	87,835
Total	\$ 230,335

Federal Grants Receivable

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

Description	Amount
Elderly Care Program	\$ 3,742
Library Services Program	8,455
Homeless Prevention Rapid Rehousing Grant	82,392
Emergency Grant Solution	1,478
Housing Prevention Grant	12,832
Total	\$ 108,899

Other Receivables

Other receivable in the Other Governmental Funds, for the amount of \$13,517 represents other miscellaneous income due at June 30, 2015.

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

4. INTERFUND BALANCES

On July 1, 2001, **the Municipality** adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures*, issued by the Governmental Accounting Standards Board. This statement requires the disclosure of the flow of resources between funds and to assess the collectibility of interfund balances. Interfund balances at June 30, 2015 consisted of the following:

	Transfers from				
	Major funds				Total governmental funds
	General fund	Debt service fund	Commonwealth legislative resolutions	Other governmental funds	
Transfers to:					
Major funds:					
<i>General fund</i>	\$ -	\$ -	\$ 248,603	\$ 40,852	\$ 289,455
<i>Debt service fund</i>	5,043,751	-	-	-	5,043,751
<i>Commonwealth legislative resolutions</i>	-	-	-	-	-
Nonmajor funds:					
<i>Other governmental funds</i>	461,165	-	-	-	461,165
Total:	\$5,504,916	\$ -	\$ 248,603	\$ 40,852	\$ 5,794,371

	Due from				
	Major funds				Total governmental funds
	General fund	Debt service fund	Commonwealth legislative resolutions	Other governmental funds	
Due to:					
Major funds:					
<i>General fund</i>	\$ -	\$ -	\$ 799,565	\$ 209,495	\$ 1,009,060
<i>Debt service fund</i>	3,311,921	-	-	-	3,311,921
<i>Commonwealth legislative resolutions</i>	-	-	-	-	-
Nonmajor funds:					
<i>Other governmental funds</i>	181,159	-	-	-	181,159
Total:	\$3,493,080	\$ -	\$ 799,565	\$ 209,495	\$ 4,502,140

The principal purposes of inter-fund receivables and payables are to recognize in the outstanding balance of the loans granted, to recognize the excess of cash in the debt service fund bank accounts, the effect of the practice of pooling cash in a current account, and to temporarily cover the payroll and other operating costs of several federally, and local and state funded programs.

The principal purposes of inter-fund transfers are to recognize the excess of cash in the debt service fund bank accounts, to make a routine transfer of resources from the general fund to the debt service fund to cover the principal, and interest payment on certain bond.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2015.

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

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2014-2015, and not paid by the Municipality at June 30, 2015. Following is a detail of these accounts payable and accrued liabilities by major fund:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 4,864,851	\$ 245,444	\$ 5,110,295
Commonwealth Legislative Resolutions Fund	26,453	-	26,453
Other Governmental Funds	193,343	-	193,343
Total	\$ 5,084,647	\$ 245,444	\$ 5,330,091

6. BONDS AND NOTES PAYABLE

As described below in Note 12, the Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. At June 30, 2015, the government funds presented \$2,807,985 of accounts payable, regarding to the outstanding balance of these bonds and notes, including its accrued interests.

7. INTERGOVERNMENTAL PAYABLES

As of June 30, 2015, balance due to other governmental units in General Fund consists of the following:

Governmental Agency	Amount
State Retirement System Administration	\$ 163,412
State Aqueduct and Sewer Authority	271,178
Commonwealth of Puerto Rico Employee's Association	16,885
General Service Administration	3,431
State Department of Labor	3,144
State Department of Treasury	5,650
Total	\$ 463,700

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

8. UNEARNED REVENUES AND DEFERRED INFLOW OF RESOURCES

Municipal license tax – unearned revenues of 1,326,456 in the General Fund are related to volume of business taxes collected in fiscal year 2014-2015, that will be earned in fiscal year 2015-16.

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

Program Description	Amount
State Office of the Elderly	\$ 3,390
Administration of Children and Families	13,429
Homeland Security Grants	735
State Administration of Solid Waste	44,616
Total	\$ 62,170

The deferred inflows of resources of \$87,835 in the General Fund, represents the amount to be reimbursed by the Commonwealth Government for the Christmas bonus vested by Municipality's employees. These amounts were not collected by the Municipality at June 30, 2015.

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

9. CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES	Balance at June 30, 2014	Additions/ increases	Disposals/ decreases	Reclasification	Balance at June 30, 2015
Cost basis of capital assets, not subject to depreciation and amortization:					
Land	\$ 10,381,090	\$ -	\$ -	\$ -	\$ 10,381,090
Construction in progress	13,749,295	56,830	-	-	13,806,125
Total cost basis of capital assets, not subject to depreciation and amortization	<u>\$ 24,130,385</u>	<u>\$ 56,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,187,215</u>
Cost basis of capital assets, not subject to depreciation and amortization:					
Land improvement	6,625,594	-	-	-	6,625,594
Building, structure and improvements	51,298,409	-	-	-	51,298,409
Infrastructure	26,209,341	92,400	-	-	26,301,741
Equipment Under Lease	-	-	-	-	-
Machinery and Equipment	3,745,104	73,205	-	-	3,818,309
Licensed Vehicles	9,981,765	49,840	-	-	10,031,605
Total cost basis of capital assets subject to depreciation and amortization	<u>\$ 97,860,213</u>	<u>\$ 215,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,075,658</u>
Total cost basis of capital assets	<u>\$ 121,990,598</u>	<u>\$ 272,275</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,262,873</u>
	Balance at June 30, 2014	Additions/ increases	Disposals/ decreases	Reclasification	Balance at June 30, 2015
ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Land improvement	2,510,247	311,435	-	-	2,821,682
Building, structure and improvements	11,322,651	1,401,429	-	-	12,724,080
Infrastructure	13,207,351	1,194,971	-	-	14,402,322
Equipment Under Lease	-	-	-	-	-
Machinery and Equipment	7,203,722	295,218	-	-	7,498,940
Licensed Vehicles	1,356,951	451,837	-	-	1,808,788
Total accumulates depreciation and amortization	<u>\$ 35,600,922</u>	<u>\$ 3,654,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,255,812</u>
CAPITAL ASSETS, NET	<u>\$ 86,389,676</u>	<u>\$ (3,382,615)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,007,061</u>

Depreciation and amortization expense was charger to funtions programs as follows:

Governmental activities:	
General government	475,177
Public safety	215,315
Urban and economic development	1,712,536
Health and sanitation	38,751
Public housing and welfare	198,722
Culture, recreation, and education	1,014,388
	<u>\$ 3,654,890</u>

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

10. EMPLOYEES' RETIREMENT SYSTEMS

Plan description

The Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) was created under the Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. This system covers all regular full time employees of the Commonwealth of Puerto Rico and its instrumentalities and of certain municipalities and components units not covered by their own retirement's systems. On February 16, 1990 Act No. 1 was presented to recognize benefits to those employees that became participants of the Plan starting April 1, 1990 and ending December 31, 1999.

On January 1, 2000 became effective a new pension program under Act No. 305 of September 24, 1999. This Act 305 amended Act No. 447 of 1951 and Act No. 1 of February 16, 1990 and establish a new pension program (System 2000). The System 2000 worked as a hybrid defined contribution plan, also known as cash balance plan. There was a pool of pension assets invested by the ERS, together with those of the current defined benefit plan. Under this System benefits at retirement age will not be guaranteed by the State government and will be subjected to the total accumulated balance of the savings account.

Act No. 3 of 2013 was enacted by the Commonwealth of Puerto Rico to establish a comprehensive reform of the ERS on April 4, 2013. This new Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS. This system moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contributions plan (System 2000) to a new defined contribution hybrid plan ("New Hybrid Plan"). Contributions will be maintained in individual accounts by each participant.

All retirement benefits accrued, through June 30, 2013, by the active participants of the programs under Act No. 447 of 1951 and Act No. 1 of 1990 will be frozen, and thereafter, all future benefits will accrue under the New Hybrid Plan. Participants will receive a pension at retirement age equivalent to what they have accrued at June 30, 2013 under Act 447 and Act 1, and a supplemental annuity corresponding to contributions made after July 1, 2013. Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.

The new participants under the NHP will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). This New Hybrid Plan eliminates the possibility of accruing a merit pension (payable once the participant has achieved 30 years of creditable service) after June 30, 2013.

Act No. 3 establish the retirement age of Act 447 regular employees at 61 years, Act 447 high risk employees (state and municipal police, firefighters and custody officials) at 55

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

10. EMPLOYEES' RETIREMENT SYSTEMS, (CONTINUED)

years. Act 305 (System 2000) regular employees at 65 years; a high risk employee remains the same, at 55 years. Act 1 employees remain the same (65 years for regular employees and 55 for high risk employees). For new employees under the New Hybrid Plan retirement age will be 67 for regular employees and 58 for high risk employees.

The new Act No. 3 also eliminates Special Law benefits to future retirees; reduce the Christmas bonus to \$200, eliminate the summer bonus of \$100 to current retirees, and eliminates disability benefits and requires a mandatory disability insurance policy.

There is no change in medical plan contributions of up to \$1,200 and medicine bonus of \$100 to current retirees. Employers will contribute \$2,000 per retiree and future retiree to help finance Special benefits; the System Law benefits paid out to retirees. As part of the changes, the minimum monthly pension for current retirees was increased to \$500.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

For the fiscal year 2014-2015, funds were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation.

The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)).

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

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

10. EMPLOYEES' RETIREMENT SYSTEMS, (CONTINUED)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2015. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

Funding policy

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. All participants are required to contribute 10% of gross salary. Participants under the coordinated plan as of June 30, 2013 (benefits coordinated with social security benefits) are required to contribute 7% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2013-2014; 8.5% of gross salary up to \$6,600 plus 10% of gross salary in excess of \$6,600 for fiscal year 2014-2015 and 10% of gross salary effective July 1, 2015

The Municipality contributed 12.275% of gross salary for fiscal year 2013-2014. The Act requires an additional 1% annually for each of the next two fiscal years, and 1.25 % annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. As stated in the Act the increase applicable to the municipalities for fiscal year 2013-2014 was financed through the Commonwealth's budget appropriations.

The Government Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations. However, **The Municipality** has not currently determined what, if any, impact implementation of this statement may have on the financial statements.

The Employee's Retirement System of the Government of Puerto Rico, who is the responsible government entity to provide the pension computations, has not issued its financial statements for the year ended June 30, 2014, nor has it provided the required information that is necessary to implement the new requirements of GASB Statement No. 68. Therefore, the accompanying government wide financial statements do not have any adjustment that result necessary for the Municipality to account for its proportionate share of the net pension as of June 30, 2015.

As result, the Municipality was limited to recognize the statutorily required contributions, with a liability presented for any unpaid required contribution. However, this recognition is not in accordance with Accounting Generally Accepted in the United States after the establishment of aforementioned Statement No. 68.

Questions concerning any of the information provided in this disclosure or requests for additional information should be addressed to the Commonwealth of Puerto Rico Government Employees and Judiciary Retirement System Administration, Minillas Station, PO Box 42003, San Juan, PR 00940.

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

11. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described Note 10, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2014, Act 3 of 2014 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

12. LONG-TERM DEBT

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

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

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2015, **the Municipality** is in compliance with the debt limitation requirements. The general long-term debt activity for the year ended June 30, 2015 was as follows.

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

12. LONG-TERM DEBT, (CONTINUED)

	Balance at beginning of fiscal year (as restated)	Borrowing or additions	Payment and deductions	Balance at end of fiscal year	Balance due within one year
General and special obligation bonds	\$ 37,098,000	\$ -	\$ 2,181,000	\$34,917,000	\$1,977,000
Note payable to CRIM - delinquent account	239,989	-	13,332	226,657	13,333
Landfill closure and post-closure costs	7,544,914	221,909	-	7,766,823	-
Obligation under capital leases	5,665	-	5,665	-	-
Compensation absences	4,121,048	48,811	-	4,169,859	1,888,000
Department of Labor	260,049	-	90,828	169,221	24,966
Totals for governmental activities	\$ 49,269,665	\$ 270,720	\$ 2,290,825	\$47,249,560	\$3,903,299

Bonds payable

The Municipality issues general obligation, special (public improvement) obligations bonds, and notes to provide for the acquisition, construction of major capital facilities and equipment, as well as, to over certain operating needs. Bonds payable at June 30, 2015 is composed of the following debts:

Description	Outstanding Amount
1992 public improvement bonds of \$880,000 due in annual installments ranging from \$20,000 to \$61,000 through January 1, 2016; bearing interest at 5.0%	\$ 61,000
1993 public improvement bonds of \$454,000 due in annual installments ranging from \$10,000 to \$32,000 through January 1, 2017; bearing interest at 5.0%	63,000
1997 public improvement bonds of \$765,000 due in annual installments ranging from \$15,000 to \$75,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	140,000
1997 general obligation notes of \$1,735,000 due in annual installments ranging from \$40,000 to \$165,000 through January 1, 2016; bearing interest at rates ranging from 6.23% to 6.58% (6.30% at June 30, 2011)	315,000
1999 general obligation bonds of \$830,000 due in annual installments ranging from \$10,000 to \$70,000 through July 1, 2023; bearing interest at rates ranging from 5.86% to 6.56% (5.86% at June 30, 2011)	475,000
2003 general obligation bonds of \$4,425,000 due in annual installments ranging from \$75,000 to \$345,000 through July 1, 2026; bearing interest at rates ranging from 4.30% to 5.60% (4.30% at June 30, 2011)	2,965,000
2004 general obligation bonds of \$505,000 due in annual installments ranging from \$10,000 to \$40,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.02% (4.50% at June 30, 2011)	360,000

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

Description	Outstanding Amount
2004 general obligation bonds of \$545,000 due in annual installments ranging from \$10,000 to \$35,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.02% (4.50% at June 30, 2011)	380,000
2004 general obligation bonds of \$1,000,000 due in annual installments ranging from \$20,000 to \$75,000 through July 1, 2028; bearing interest at rates ranging from 4.36% to 5.02% (4.50% at June 30, 2011)	725,000
2006 general obligation bonds of \$355,000 due in annual installments ranging from \$5,000 to \$25,000 through July 1, 2030; bearing interest at rates ranging from 4.36% to 5.02% (4.50% at June 30, 2011)	285,000
2008 general obligation bonds of \$1,850,000 due in annual installments ranging from \$45,000 to \$175,000 through July 1, 2028; bearing interest at rates ranging from 1.53438% to 7.00% (1.53438% at June 30, 2011)	1,540,000
2010 general obligation bonds of \$9,405,000 due in annual installments ranging from \$135,000 to \$785,000 through July 1, 2034; bearing interest at rates ranging from 6.00% to 7.50%.	8,605,000
2011 general obligation bonds of \$4,530,000 due in annual installments ranging from \$100,000 to \$415,000 through July 1, 2030; bearing interest at rates ranging from 6.00% to 7.50%.	4,070,000
2012 general obligation bonds of \$3,255,000 due in annual installments ranging from \$45,000 to \$270,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	3,105,000
2012 general obligation bonds of \$1,040,000 due in annual installments ranging from \$15,000 to \$90,000 through July 1, 2036; bearing interest at rates ranging from 6.00% to 7.50%.	990,000
2012 general obligation bonds of \$2,556,000 due in annual installments ranging from \$100,000 to \$271,000 through July 1, 2026; bearing interest at rates ranging from 6.00% to 7.50%.	2,236,000
2012 general obligation bonds of \$1,580,000 due in annual installments ranging from \$175,000 to \$275,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50%.	1,000,000
2012 general obligation bonds of \$2,370,000 due in annual installments ranging from \$270,000 to \$420,000 through July 1, 2018; bearing interest at rates ranging from 6.00% to 7.50%.	1,500,000
2014 general obligation bonds of \$5,985,000 due in annual installments ranging from \$90,000 to \$505,000 through January 1, 2014; bearing interest at rates ranging from 6.00% to 7.50%.	5,895,000
2014 general obligation bonds of \$247,000 due in annual installments ranging from \$40,000 to \$57,000 through January 1, 2014; bearing interest at rates ranging from 6.00% to 7.50%.	207,000
Total:	\$ 34,917,000

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

12. LONG-TERM DEBT, (CONTINUED)

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

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

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

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

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

Year Ending June 30, 2015	Principal	Interest	Total
2016	\$1,977,000	\$1,953,275	\$3,930,275
2017	1,907,000	2,161,886	4,068,886
2018	1,835,000	2,071,730	3,906,730
2019	1,977,000	1,957,161	3,934,161
2020	1,305,000	1,853,087	3,158,087
2021-2025	8,010,000	7,957,091	15,967,091
2026-2030	8,571,000	4,950,452	13,521,452
2031-2035	6,835,000	2,222,503	9,057,503
2036-2040	2,500,000	336,375	2,836,375
Total:	\$34,917,000	\$25,463,560	\$60,380,560

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

12. LONG-TERM DEBT, (CONTINUED)

Notes payable to CRIM – Delinquent Accounts

Law 146 – On 2001, a resolution was enacted to authorize **the Municipality** to obtain up to \$333,358, for a term not exceeding 30 years, for repayment of bonds issued for the sale of delinquent accounts. A repayment agreement that bears interest at 6.22% beginning July 1, 2007 was settled with the CRIM. The outstanding principal balance of the note payable to CRIM amounted to \$226,656, at June 30, 2015. The principal and interest maturities are as follows:

Year ending June 30, 2015	Principal	Interest	Total
2016	13,333	5,675	19,008
2017	13,333	5,341	18,674
2018	13,333	5,008	18,341
2019	13,333	4,674	18,007
2020	13,333	4,340	17,673
2021-2025	66,664	16,692	83,356
2026-2030	66,664	8,346	75,010
2031-2032	26,664	1,004	27,668
Total:	\$ 226,657	\$ 51,080	\$ 277,737

Compensated absences: At June 30, 2015, the liability for compensated absences amounted to \$4,169,859. This is the combination of balances related to accrued sick leave benefits, accrued vacation benefits, and compensatory leave benefits. The total amount of compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Accrued vacations	\$ 911,303	\$ 569,725	\$ 1,481,028
Accrued sick leave	639,562	1,712,134	2,351,696
Accrued compensatory time	337,135	-	337,135
Total compensated absences	\$ 1,888,000	\$ 2,281,859	\$ 4,169,859

13. LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill and adopted the required provisions of Statement No. 18, “*Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*”, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its “Solid Waste Disposal Facility Criteria”, issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net positions date. The \$7,766,823 reported as landfill

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

13. LANDFILL CLOSURE AND POSTCLOSURE CARE COST OBLIGATION, (CONTINUED)

closure and post closure care liability at June 30, 2015, represents an estimate of the cumulative amount reported to date based on the percentage used (53%) of the estimated capacity of the landfill.

The Municipality will recognize the remaining estimated cost of closure and post closure care of \$13,758,372, as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post closure care in 2015. The estimated life of the landfill according to the engineers of the Municipality is approximately twenty eight (28). Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

14. MUNICIPAL LICENSE TAXES

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of **the Municipality**. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. **The Municipality** establishes the applicable tax rates. At June 30, 2015 the municipal license tax rates imposed by **the Municipality** were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates.

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

Municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$2,316,882 at June 30, 2015.

15. PROPERTY TAXES

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

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force was 7.03% (of which taxpayers pay 6.83% and 0.20% is reimbursed by the Department of Treasury) at June 30, 2015. Real property taxes are assessed by The Municipal Revenue Collection Center ("CRIM"). The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. The total real property tax rate

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

15. PROPERTY TAXES, (CONTINUED)

in force was 10.28% (of which 10.08% is paid by taxpayers and 0.20% is also reimbursed by the Department of Treasury) at June 30, 2015.

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

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

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

In addition, 1.25% of the total personal and real property taxes collected by CRIM is separated for **the Municipality's** debt service requirements and is deposited in a Trust retained by GDB for such purposes (see note 19, subsequent events). The aforementioned Act No.83 state that the proceeds of this 1.25% shall remain in the debt service fund, except for the portion that constitute excess in redemption fund. Excess in redemption fund is established by Act No. 64 of July 3, 1996 as amended, as any amount that exceeds the portion equivalent to the payment of twelve (12) months of principal and interest of debt service and the payment of any other public debt that the municipality has uncovered.

At June 30, 2015 the debt service fund, related to property taxes, had assets of \$6,647,972 of which \$3,238,972 constitute the reserve restricted by law for the payment of principal and interest during a period of twelve (12) subsequent months. According to GASB Statement No. 54 debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest and that debt service funds should be used to report resources if legally mandated.

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

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

15. PROPERTY TAXES, (CONTINUED)

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

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

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

Total property tax receivable, net of an allowance for uncollectible accounts of \$17,245,776 amounted to \$1,587,991 at June 30, 2015. The composition of property taxes receivable and the related deferred inflows or resources at June 30, 2015 is as follows:

	General fund	Debt service fund	Total
Gross property taxes receivable	\$ 12,100,687	\$ 6,733,080	\$18,833,767
Less allowance for uncollectible Accounts	11,082,189	6,163,587	17,245,776
Net property tax receivable	\$ 1,018,498	\$ 569,493	\$1,587,991

16. MUNICIPAL SALES AND USE TAX

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

On July 29, 2007, the State Public Act No. 80 which amends Act No. 117 and establishes that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico

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

16. MUNICIPAL SALES AND USE TAX, (CONTINUED)

Treasury Department (PRTD) the other 0.5%. Resources collected by the Municipality would be used for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs.

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

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

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

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

The Act No. 19 creates a public corporation, as a component unit of the GDB, under the name of Municipal Finance Corporation (COFIM). The new COFIM may issue, pay or refinance the municipalities long term debt related to the Municipal Sales and Use Tax Redemption Fund. Under this corporation the new issuance of municipal long term debts will be guaranteed with the municipal sales and use tax of 1.0%. For this purpose the Municipal Sales and Use Tax of 1.0% will be deposited in the COFIM. From the monthly amount collected, the COFIM will deposit 0.3% of the 1.0% on the COFIM sinking fund. The excess of the required deposit (0.7%) will be transferred to the municipalities.

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

As of June 30, 2015 the Municipality recorded Sales and Use Tax revenues of \$1,760,696 in the General Fund and \$139,877 in the Debt Service Fund corresponding to the Municipal Redemption Fund.

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

17. COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In respect to pending or threatened litigation, the Municipality does not have or anticipate unfavorable judgments as of June 30, 2015. Management believes that any unfavorable outcome in relation to pending or threatened litigation would not be significantly.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

18. FUND BALANCE

As of June 30, 2015, the fund balance (deficit) classifications are as follows:

Fund balances (deficit)	General Fund	Debt Service Fund	Commonwealth Legislature Resolution	Other Governmental Fund	Total
<i>Restricted for:</i>					
General government	\$ 1,469,951	\$ -	\$ -	\$ 236,941	\$ 1,706,892
Urban and economic development	728,417		4,787,272	3,515,563	9,031,252
Public safety	308,130			169,216	477,346
Health and sanitation	554,058			15,615	569,673
Culture, recreation and education	171,638			644,034	815,672
Public housing and welfare	189,107			1,626,989	1,816,096
Debt service		880,167			880,167
<i>Unassigned</i>	(6,707,266)				(6,707,266)
Total fund balances (deficit)	\$ (3,285,965)	\$ 880,167	\$ 4,787,272	\$ 6,208,358	\$ 8,589,832

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

18. FUND BALANCE (CONTINUED)

Beginning Fund Balance Reclassification

The total beginning fund balance presented in the financial statements for the fiscal year ended June 30, 2015 totaled the amount of \$ 13,581,488. There was no difference between this total amount and the total ending fund balance presented in the 2013-2014 financial statements, however, a reclassification of beginning fund balances between the Commonwealth Legislature Resolutions and the Other Governmental Funds has been made by the amount of \$731,125. This reclassification responds to assignments handled as special programs funds for operating with different characteristics than those presented in the commonwealth legislature resolutions fund.

19. SUBSEQUENT EVENTS

On July 29, 2015 the Municipal Revenue Collection Center (CRIM) sues a mandamus against the Government Development Bank of Puerto Rico (GDB) claiming the creation of the Trust by Public Deed required by Article 4 of Act. 80 of 1991, in order to protect and manage municipal funds from property taxes collections (ET AL. SJ2015CV00176 (904).

On September 29, 2015 the GDB sues a mandamus against the CRIM to require that municipal revenues related to the municipal property tax continue to be deposited in the GDB accounts even without the creation of the Trust required by law (ET AL. SJ2015CV00258 (904).

These actions are tied to existing statutes in the law creating the CRIM (Act Num. 80 of 1991), the law establishing the Municipal Property Tax (Act Num. 83 of 1991) and the law regulating the Municipal Financing (Act Num. 64 of 1996) since all refer to the establishment of a Trust to deposit municipal funds collected from this contribution. As a result, the Trust by Public Deed was established between the parties on November 2, 2015. The establishment of this Trust is an instrument that provides security and safety on the availability of municipal funds deposited in the GDB product of the collections from property taxes and it enables a better compliance with regulations and uses of funds stated in the aforementioned Acts.

In the content of the trust the necessary sub-funds for the payment of debt service of each municipality are set. In this way, each debt service sub-fund will receive the amount needed to make payments of debts during a period of one year, keeping separate in other sub-fund the monthly amount that corresponds to the municipalities for their operation and the amount that constitutes an excess in the redemption fund.

This trust also establishes an immediate application that includes the transfer of existing funds at the time, including the amounts that had been collected at June 30, 2015. It is for this reason that the amounts presented in the financial statements of **the Municipality**, at June 30, 2015, reflect the effect of this trust fund and in the debt service fund the restricted fund balance presented is the corresponding payment of principal and interest for the next twelve (12) months, as the legal basis required. This represents a further security on the amounts of funds remitted monthly to the operation of the municipalities, on the amounts restricted for payment of principal and interest on debt services, and on the amounts that constitute an excess in redemption fund.

Management has evaluated subsequent events through March 30, 2016, which is the date the financial statements were available to be issued and determined that no additional material subsequent events require disclosure or an estimate to be recorded as June 30, 2016.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO
 Budgetary Comparison Schedule – General Fund
 Fiscal Year Ended June 30, 2015

	<u>Budgeted amounts</u>		<u>Actual amounts (budgetary basis)</u>	<u>Variance with final budget – over (under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Property	7,699,045.00	7,699,045.00	7,626,381.00	\$ (72,664)
Municipal license	2,575,000.00	2,575,000.00	2,316,882.00	(258,118)
Sales	2,400,000.00	2,400,000.00	1,742,529.00	(657,471)
Construction excise	1,220,000.00	1,220,000.00	275,207.00	(944,793)
Charge for services	1,004,833.00	1,004,833.00	479,979.00	(524,854)
Intergovernmental	3,908,333.00	3,908,333.00	4,894,702.00	986,369
Interest on deposits	240,000.00	240,000.00	106,857.00	(133,143)
Miscellaneous	2,805,000.00	2,805,000.00	441,044.00	(2,363,956)
Total revenues	<u>21,852,211</u>	<u>21,852,211</u>	<u>17,883,581</u>	<u>(3,968,630)</u>
Expenditures:				
General government	7,575,241	7,921,105	7,392,820	(528,285)
Public safety	2,825,289	2,437,714	2,142,613	(295,101)
Urban and economic development	5,548,344	5,550,152	5,599,788	49,636
Health and sanitation	3,114,238	3,365,626	3,852,697	487,071
Culture, recreation and education	1,233,267	1,130,016	1,193,499	63,483
Public housing and welfare	1,555,832	1,447,598	1,314,972	(132,626)
Transfer out to other funds			289,455	289,455
Total expenditures	<u>21,852,211</u>	<u>21,852,211</u>	<u>21,785,844</u>	<u>(66,367)</u>
Excess (deficiency) of revenues over expenditure	-	-	(3,902,263)	(3,902,263)

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 17,883,581
Differences - budgetary basis to GAAP:	
Differences in bases of accounting:	
GAAP adjustment to revenues	428,040
Non-budgetary revenues	209,017
Total revenues and as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 18,520,638</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (including transfer out to other funds)	\$ 21,785,844
Differences - budgetary basis to GAAP:	
Current year encumbrances recorded as expenditures for budgetary purposes	(389,162)
Prior year encumbrances recorded as expenditures for GAAP purposes	438,785
Non-budgetary expenditures	2,244,316
Non-budgetary transfer to other funds	(289,455)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 23,790,328</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CABO ROJO

Notes to Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2015

NOTE A – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY CONTROL

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP, and represents departmental appropriations recommended by the Mayor and approved by the Municipal Legislature prior to the beginning of the fiscal year. Amendments to the budget require the approval of the Municipal Legislature. Transfers of appropriations within the budget, known as Mayor's Resolutions, do not require the approval of the Municipal Legislature.

The Municipality prepares its annual budget including the operations of the General Fund.

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For 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.

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2014 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.

**FINANCIAL DATA SCHEDULE
REQUIRED BY THE U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT**

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
FINANCIAL DATA SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2015

RQ061- Entity Wide Balance Sheet Summary
Audited/A-133
14.871 Housing Choice Vouchers
Fiscal Year End: 06/30/2015

111 Cash - Unrestricted	\$ 99,795
113 Cash - Other Restricted	460
100 Total Cash	<u>100,255</u>
121 Accounts Receivable - PHA Projects	9,113
128 Fraud Recovery	11,019
128.1 Allowance for Doubtful Accounts - Fraud	<u>(6,615)</u>
120 Total Receivables, Net of Allowances for Doubtful Accounts	<u>13,517</u>
150 Total Current Assets	<u>113,772</u>
290 Total Assets	<u>113,772</u>
312 Accounts Payable <= 90 Days	1,158
313 Accounts Payable >90 Days Past Due	15,308
322 Accrued Compensated Absences - Current Portion	1,081
331 Accounts Payable - HUD PHA Programs	<u>2,789</u>
310 Total Current Liabilities	20,336
354 Accrued Compensated Absences - Non Current	<u>3,283</u>
350 Total Non-Current Liabilities	<u>3,283</u>
300 Total Liabilities	<u>23,619</u>
511.4 Restricted Net Position	460
512.4 Unrestricted Net Position	<u>89,693</u>
513 Total Equity - Net Assets / Position	<u>90,153</u>
600 Total Liabilities and Equity - Net	<u><u>\$ 113,772</u></u>

COMMONWEALTH OF PUERTO RICO - MUNICIPALITY OF CABO ROJO
FINANCIAL DATA SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2015

RQ061 - Entity Wide Revenue and Expense Summary
Audited/A-133
14.871 Housing Choice Vouchers
Fiscal Year End 06/30/2015

70600 HUD PHA Operating Grants	\$ 486,821
71100 Investment Income - Unrestricted	197
71400 Fraud Recovery	1,154
71500 Other Revenue	66,432
70000 Total Revenue	<u>554,604</u>
91100 Administrative Salaries	63,012
91500 Employee Benefit contributions - Administrative	18,345
91800 Travel	142
91900 Other	4,904
91000 Total Operating - Administrative	<u>86,403</u>
96900 Total Operating Expenses	<u>86,403</u>
97000 Excess of Operating Revenue over Operating Expenses	<u>468,201</u>
97300 Housing Assistance Payments	435,744
97350 HAP Portability-In	56,770
90000 Total Expenses	<u>578,917</u>
10000 Excess (Deficiency) of Total Revenue' Over (Under) Total Expenses	<u>(24,313)</u>
11030 Beginning Equity	\$ 114,466
11170 Administrative Fee Equity	\$ 89,693
11180 Housing Assistance Payments Equity	\$ 460
11190 Unit Months Available	<u>1284</u>
11210 Number of Unit Months Leased	<u>1186</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS
REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB
CIRCULAR A-133**

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

<u>Federal Grantor / Pass-Through Grantor / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grant	10.433		\$ 12,153
Pass-through the Department of Education of the Commonwealth of Puerto Rico:			
Child and Adult Care Food Program	10.558	N/AV	<u>39,616</u>
Total U.S. Department of Agriculture			<u>51,769</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants/ Entitlement Grants	14.218		811,395
Section 8 Housing Choice Vouchers Program	14.871		486,821
Pass-through the Office of the Commissioner of Municipal Affairs of the Commonwealth of Puerto Rico:			
Community Development Block Grant Program	14.228	2015-006254	55,500
Pass-through the Department of Family of the Commonwealth of Puerto Rico:			
Emergency Solution Grant Program	14.231	N/AV	<u>15,161</u>
Total U.S. Department of Housing and Urban Development			<u>1,368,877</u>

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

**U.S. DEPARTMENT OF HEALTH AND
 HUMAN SERVICE:**

Pass-Through the Office of the Elderly:

Special Program for the Aging, Title III, Part B	93.045	N/AV	96,930
---	--------	------	--------

Pass-Through the Administration for Integral
 Care and Development of Children of the
 Commonwealth of Puerto Rico:

Child Care and Development Block Grant	93.575	N/AV	<u>122,726</u>
--	--------	------	----------------

**Total U.S. Department of Health and Human
 Service**

219,656

**DEPARTMENT OF HOMELAND
 SECURITY**

Pass-Through the Governor's Office of
 Public Safety Affairs:

Disaster Grants - Public Assistance	97.036		22,500
-------------------------------------	--------	--	--------

Homeland Security Grant Program	97.067	N/AV	<u>104,016</u>
---------------------------------	--------	------	----------------

Total Department of Homeland Security

126,516

TOTAL EXPENDITURE OF FEDERAL AWARDS

\$ 1,766,818

See accompanying Notes to Schedule of Expenditures of Federal Awards

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

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Cabo Rojo, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass-through entity and identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

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

Viviana Vélez Carrasquillo

Certified Public Accountant

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

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

I 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 each major fund, and the aggregate remaining fund information of Municipality of **Cabo Rojo**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements and have issued my report thereon dated March 30, 2016. The report on the General Fund and the Debt Service Fund was qualified for the interfund balances. Also, I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets, the landfill closure and post-closure care cost liability and because the Municipality did not presented the deferred outflows of resources, the deferred inflows of resources and the net pension liability as required by the GASB 68.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 2015-002, 2015-003, 2015-004, 2015-005 and 2015-006.

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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or 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. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 2015-004, 2015-005 and 2015-006.

Municipality's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.


Viviana Vélez Carraquillo
License Number 5288

Carolina, Puerto Rico
March 30, 2016



Viviana Vélez Carrasquillo

Certified Public Accountant

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

**To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Cabo Rojo, Puerto Rico**

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Cabo Rojo**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each Municipality's major federal programs for the fiscal year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Municipality's compliance.

Opinion on Each Major Federal Program

In my 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 program for the year ended June 30, 2015.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133 (CONTINUED)**

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-007. My opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in my audit are 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 I 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 my audit of compliance, I 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, I do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did not identify any deficiencies in internal control over compliance that I considered to be material weaknesses. However, I identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-007, that I consider to be significant deficiencies.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133 (CONTINUED)**

Municipality's response to the internal control over compliance findings identified in my audit are 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 I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.


Viviana Vélez Carrasquillo
License Number 5288

Carolina, Puerto Rico
March 30, 2016



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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

<u>Opinion Units</u>	<u>Type of Opinions</u>	
Governmental activities	Disclaimer	
General Fund	Qualified	
Debt Service Fund	Qualified	
Commonwealth Legislature Resolutions Fund	Unmodified	
Aggregated remaining fund	Unmodified	
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified?	Yes X	None reported
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified?	Yes X	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified opinion for Community Development Block Grant- Entitlement Grants	
	Unmodified opinion for Section 8 Housing Choice Voucher	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants - Entitlement Grants
14.871	Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes No X

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	2015-001
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain complete accounting records.
CONTEXT	During the examination of the accounting records, I noted that the Municipality does not summarize the transactions in a formal accounting system in order to properly record and account for the transactions of the general fund and special revenue funds. Also, during the cash test, I noted that the Municipality maintain an investment, at June 30, 2015, with a fair market value of \$109,613. I noted, that during the fiscal year 2014-2015, the investment suffered losses.
CRITERIA	<p>Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.</p> <p>Chapter V, Section 5, of the Regulatory Manual for the Municipal Administration of the Office of the Commissioner of Municipal Affairs (OCAM), states that the finance director must assure that the investments are made with judgment and cautiousness, and not for speculative purposes. The investment must be made considering the security of the capital and the generated income.</p>
CAUSE	The Municipality did not maintain effective internal control over the accounting records from where the financial information is obtain for the preparation of the financial statements in accordance with generally accepted accounting principles.
EFFECT	The Municipality is not in compliance with Articles 8.010 (b) and (c), of the State Law Number 81 of August 30, 1991. Also, the Municipality is not in compliance with Chapter V, Section 5, of the Regulatory Manual for the Municipal Administration of the Office of the Commissioner of Municipal Affairs (OCAM).
RECOMMENDATION	I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides for the preparation of financial statements in accordance with generally accepted accounting principles

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	2015-001(CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain complete accounting records.
MANAGEMENT RESPONSE	The Municipality of Cabo Rojo implemented its new Accounting System on July 1, 2015. This help the Municipality maintain the fund accounting in accordance with GAAP and improves the controls over the financial information.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING	2015-002
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	During my examination of the accounting records, I noted that the Municipality does not have adequate internal controls and procedures over the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2015.
CRITERIA	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociados de Puerto Rico de 1991</i> of August 30, 1991, stated that Municipality should maintain updated property accounting records.
CAUSE	The Municipality did not maintain an adequate control of the accountability of the capital assets presented in the statement of net position of the Municipality.
EFFECT	The Municipality is not in compliance with Article 8.010 (c) (3) of the State Law Number 81 of August 30, 1991.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger.
MANAGEMENT RESPONSE	A special work was performed and finished in October 2015 for Capital Assets, including infrastructure assets so that assets on the Accounting records are updated. The Capital Assets module used by the Municipality is in the process of being updated and during the following months the new accounting module for capital assets is to be implemented by the Municipality.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-003
REQUIREMENT	ACCOUNTING RECORDS – NET PENSION LIABILITY
CONDITION	The Municipality did not implement the requirements of the GASB Statement No. 68.
CONTEXT	<p>During the fiscal year 2014-2015, the Municipality’s financial statements do not include the proportionate net pension liability corresponding to the Municipality’s participation in the State Employee Retirement System Administration and the related deferred outflows and deferred inflows of resources in the government wide financial statements. Also, the Municipality recorded its annual contributions to the pension plan as pension expense.</p> <p>In addition, the Municipality’s financial statements do not include adequate disclosure about the pension plan through which the pensions are provided required by the GASB 68. Also, the Municipality’s financial statements did not included historical pension information that accounting principles generally accepted in the United States of America required to be presented as a required supplementary information.</p>
CRITERIA	GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.
CAUSE	The Municipality accounting personnel did not recorded in the financial statements the unaudited information provided by the State Employee Retirement System Administration.
EFFECT	The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality. Also, the Municipality is not in compliance with GASB Statement No. 68.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-003 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS – NET PENSION LIABILITY
RECOMMENDATION	I recommend management to request to the State Employees Retirement System Administration, the information necessary to implement the requirements of the GASB Statement No. 68 and recognized the liability, deferred outflows of resources and deferred inflows of resources.
MANAGEMENT RESPONSE	The Municipality is participant of the Employee’s Retirement System of the Government of Puerto Rico (ERS). The structure of operation of the retirement system, in relation to municipal beneficiaries, requires that the municipal administration had received audited information from ERS to disclose future liabilities of the Municipality in relation to these benefits, which did not occur during the preparation of the financial statements of fiscal 2014-2015. As a result, the necessary information to meet the new requirements of GASB 68 could not be presented in this financial report. For the above reason, the Municipality was limited to present their information on pension costs based on the provisions that previously required the GASB Statement No. 27. In this scenario, the Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions. The impact of this new requirements affects net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. But is limited to the Government-wide and Proprietary Fund financial statements, and does not impact the modified accrual current resources focus of the General Fund, other governmental funds, or the budget-to-actual comparison.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-004
REQUIREMENT	GENERAL FUND'S ACCUMULATED DEFICIT
CONDITION	The Municipality's accumulated deficit in the General Fund.
CONTEXT	The Municipality closed its fiscal year ended June 30, 2015, with an accumulated unassigned deficit in the General Fund of \$6,707,266. Also, during the evaluation of the budget liquidation (the manual accounting report that summarizes the annual operations results of the general fund), I noted that the Municipality did not included in this report the total amount of the liability related to the services of waste management at June 30, 2015.
CRITERIA	Article 8.004(b) of the Municipalities Law established the Municipality cannot obligate or spend funds in excess of the ongoing fiscal year. No amount shall be expended or obligated in a given fiscal year in excess budgeted or authorized amounts by the Municipal Legislature.
CAUSE	The overstatement of estimated revenues accounts in prior years caused that the Municipality operated with a deficit.
EFFECT	The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
RECOMMENDATION	I recommend management to improve the budget control process, implement a cost reduction plan, and increase the collection efforts over the municipal license tax, the property taxes, sales and uses tax. Also, the Municipality should evaluate the trend in the negative variance between budgeted revenues and actual revenues to reduce the budgeted expenditures.
MANAGEMENT RESPONSE	It should be noted that the total accumulated deficit exhibited by the General Fund of the Municipality by the end of fiscal year 2014-2015 was \$3,285,965. The deficiency of \$6,707,266 represented only the amount classified as unassigned fund balance, without taking into consideration the positive fund balance of \$3,421,301 presented as "restricted". When preparing an operating budget, the municipality assigns a specific purpose to each amount in the budget; therefore any resource that becomes available at the end of the year, which is intended to pay specific debts accrued, cannot be considered available or unassigned.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-004 (CONTINUED)**

REQUIREMENT **GENERAL FUND'S ACCUMULATED DEFICIT**

MANAGEMENT RESPONSE GASB Statement 54 (Fund Balance Reporting and Governmental Fund Types Definitions) states that unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. Therefore, unassigned fund balance will be recognized as positive when the General Fund accumulate an amount of funds that are not committed or restricted to a specific purpose; as a result, any deficiencies accumulated in the General Fund will be reflected as unassigned fund balance because a deficiency cannot be used to cover obligations. It is a known fact that at the end of fiscal year 2012-2013 the Municipality of Cabo Rojo had an accumulated deficit of \$ 7,531,509 in its General Fund. It is also worth nothing that for the next two fiscal years the municipality has made the necessary adjustments to reduce and keep below \$3,300,000 the accumulated deficit of the General Fund, even under the fiscal crisis the government of Puerto Rico is experiencing. All these efforts were made to maintain an efficient management of the resources to allow financial stability of operations, without affecting services to the citizens. There is a plan in place to ensure continued financial stability by identifying achievable revenues and maintaining effective control of operating expenses during the following fiscal years.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	<p>The Municipality recorded an interfund operating transfer between the Debt Service Fund and the General Fund, which was not in accordance with the accounting principles generally accepted in the United States of America. Also, the Municipality transfer funds of special revenue funds to the General Fund without adequate supporting documentation.</p>
CONTEXT	<p>The Municipality recorded an interfund operating transfer and the corresponding due to/ due from between the Debt Service Fund and the General Fund in the amount of \$3,311,921, based on the assumption that the Debt Service Fund maintain an excess of cash surplus. Such interfund transfer, represents the excess of cash surplus in the Debt Service Fund, which was not requested to the Government Development Bank of Puerto Rico (GDB) and was not determined and authorized by the officials of the GDB, during the fiscal year 2014-2015 or subsequent period. In addition, the notes to the financial statements did not include adequate disclosure of this interfund transaction.</p> <p>Also, during my examination of the accounting records, I noted that during the fiscal year 2014-2015, the Municipality transfer funds to the General Fund bank account, from the Commonwealth Legislature Resolutions Fund, in which state assignments and grants are accounted. These amounts were pooled with the unrestricted resources of the General Fund. Such state assignments and grants are restricted by Joint Resolutions of both the State House of Representative and Senate. As of June 30, 2015, interfund debt between these funds was \$799,565.</p>
CRITERIA	<p>Law Num. 64 of July 3, 1996, as amended, (e) states that once the reserve is secure or the portion equivalent to the payment of the following twelve (12) months of principal and interests of the bonds and notes, and once guaranteed the payment of the municipal public debt, as determined by the Government Development Bank (GDB), if there is a cash surplus in the Debt Service Fund, the GDB will be obligated to transfer such surplus. The surplus can be requested annually. Also, Government Accounting Standard Board states that financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.</p> <p>In addition, Article 8.004 (c) of the State Law Number 81 - <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991</i> - August 30, 1991, states that the restricted funds received by the Municipalities should be only used for the purposes established by these resources.</p>

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CAUSE	<p>The Municipality did not requested to the GDB, the cash surplus in a timely manner, in accordance with the requirements establish in the Law.</p> <p>Also, the General Fund cash resources have been reduced over the past years due to the excess of expenditures over revenues and has caused a liquidity problem to meet the payment of its current obligations and services. This situation caused that the General Fund uses resources from other funds.</p>
EFFECT	<p>The Municipality did not present adequately, the financial position and the result of operations of the General Fund and the Debt Service Fund.</p> <p>Also, the Municipality, probably, did not count with the sufficient resources to comply with the projects or activities for which such funds were obtained and restricted.</p>
RECOMMENDATION	<p>The Municipality should request as soon as possible the cash surplus to the GDB, and once the surplus is approved and the authorized by GDB officials, request the transfer of funds to the General Fund. This situation would eliminate this interfund balance.</p> <p>Also, the Municipality should either reimburse all resources obtained from the transfers of those funds, or obtain an authorization from the State House of Representative and Senate for a re-program of such funds. Also, the Municipality should avoid making transfers between funds that are not adequately supported and authorized.</p>
MANAGEMENT RESPONSE	<p>On July 29, 2015 the Municipal Revenue Collection Center (CRIM) filed a mandamus against the Government Development Bank of Puerto Rico (GDB) claiming the creation of the Trust by Public Deed required by Article 4 of Act. 80 of 1991, in order to protect and manage municipal funds from property taxes collections (ET AL. SJ2015CV00176 (904). On September 29, 2015, the GDB sues a mandamus against the CRIM to require that municipal revenues related to the municipal property tax continue to be deposited in the GDB accounts even without the creation of the Trust required by law (ET AL. SJ2015CV00258 (904). These actions are tied to existing statutes in the law creating the CRIM (Act Num. 80 of 1991), the law establishing the Municipal Property Tax (Act Num. 83 of 1991) and the law regulating the Municipal Financing (Act Num. 64 of 1996), since all refer to the establishment of a Trust to deposit municipal funds collected from this contribution. As a result, the Trust by Public Deed was established between the parties on November 2, 2015.</p>

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-005 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS- INTERFUND TRANSACTIONS**

MANAGEMENT RESPONSE The establishment of this Trust is an instrument that provides security and safety on the availability of municipal funds deposited in the GDB product of the collections from property taxes and it enables a better compliance with regulations and uses of funds stated in the aforementioned Acts. In the content of the trust the necessary sub-funds for the payment of debt service of each municipality are set. In this way, each debt service sub-fund will receive the amount needed to make payments of debts during a period of one year, keeping separate in other sub-fund the monthly amount that corresponds to the municipalities for their operation and the amount that constitutes an excess in the redemption fund. This trust also establishes an immediate application that includes the transfer of existing funds at the time, including the amounts that had been collected at June 30, 2015. It is for this reason that the amounts presented in the financial statements of the Municipality, at June 30, 2015, reflect the effect of this trust fund and in the debt service fund the restricted fund balance presented is the corresponding payment of principal and interest for the next twelve (12) months, as the legal basis required. This represents a further security on the amounts of funds remitted monthly to the operation of the municipalities, on the amounts restricted for payment of principal and interest on debt services, and on the amounts that constitute an excess in redemption fund.

Act No. 83 of August 30, 1991, as amended; establish that a 1.25% of the total personal and real property taxes collected by CRIM will be deposited in a Trust retained by GDB. The aforementioned Act No.83 also state that the proceeds of this 1.25% shall remain in the debt service fund, except for the portion that constitute excess in redemption fund. Excess in redemption fund is established by Act No. 64 of July 3, 1996 as amended, as any amount that exceeds the portion equivalent to the payment of twelve (12) months of principal and interest of debt service and the payment of any other public debt that the municipality has uncovered.

The interfund operating transfer that the Municipality recorded between the Debt Service Fund and the General Fund was made in accordance with the accounting principles generally accepted in the United States of America. The Municipality complied with the accounting principles as the GASB 54(paragraph 34) states that Debt Service Fund will be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. This is not the purpose of the existing excesses in this municipal account questioned.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-005 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS- INTERFUND TRANSACTIONS**

MANAGEMENT RESPONSE The municipal administration has the legal right to use these funds to pay other obligations and it has determined and announced to do so. To recognize such excesses as restricted balances for payment of principal and interest during this year, and later requested them to cover other obligations would be a contradiction of the term “restricted for debt service” established by the GASB and a real failure to comply with the accounting principles generally accepted in the United States of America. Moreover, the Municipality presented adequate and certified information to record the accounting entry and made full disclosure of the merits of the transfer in its financial report. During the compilation and audit process of the financial statements, both the Municipality and the external auditors, received cash balance confirmation, provided by the Government Development Bank (GDB), as of June 30, 2015. Regarding the CRIM-Cabo Rojo Account, this confirmation certifies a cash balance of \$6,138,044. Similarly, an official letter from the Municipal Collection Center (CRIM) was received announcing that additional resources were collected at June 30, 2015 reaching the amount of \$455,182 for the Municipality which would be deposited in the account CRIM-Cabo Rojo. Both amounts were certified and confirmed total available resources of \$6,593,226. Similarly, both the Municipality and external auditors, received a GDB direct confirmation containing all official depreciation tables for each of the debts related to bonds that belong to the municipality. These tables reflect the annual repayment amount of principal and interest, which each loan required during his maturity period. It is from this official report that the Municipality obtained the amount of reserves required to cover payments of principal and interest for a specific period of twelve (12) months of operation from June 30, 2015, which amounted to \$3,229,715. It is from these two quantities, certified and confirmed, that the municipality proceeded to recognize the indisputable right recognized by Act # 83 of 1991, taking into consideration the reserve required by Act #. 64 of 1996, and the added protection of funds that represents the Trust signed between the CRIM and the GDB establishing the required sub-funds to distribute the amounts collected in favor of the Municipality. Both, the Acts mentioned above as well as the history of the Trust were widely disclosed in the notes accompanying the financial statements on June 30th, 2015.

Finally, applications on the use of the current financial resources measurement focus and the modified accrual basis of accounting are applied to the recognition of revenues and expenditures related to financial activities with entities outside the government unit that presents the financial statements (GASB 11). In the case of the entry accounting that is being questioned these parameters do not apply.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-005 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS- INTERFUND TRANSACTIONS**

MANAGEMENT RESPONSE Revenues were already recorded and properly recognized in the Debt Service Fund at June 30, 2015. The Municipality is presenting an interfund transaction that only involves resources that were already collected and available in its bank accounts, which are not restricted by law because they represent an excess of cash surplus according to the provisions of applicable laws. The preparation of the accompanying basic financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-006
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
CONDITION	The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure care costs based on an updated study of the activities of the solid waste landfill.
CONTEXT	At June 30, 2015 the accompanying statement of net position presents a liability for closure and post-closure care cost of the Municipality solid waste landfill of \$7,766,823. However, this liability has not been updated based on a study, in conformity with the regulatory requirements established by the U.S. Environmental Protection Agency (EPA) and GASB 18.
CRITERIA	Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its “Solid Waste Disposal Facility Criteria”; the Municipality is required to place a final cover on the Municipality’s solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality must adjust the liability recorded in its statement of net position at June 30, 2015.
CAUSE	The Municipality failed to perform a study of the operation of the waste landfill, in accordance with the requirements of the EPA, in order to update the closure and post-closure liability.
EFFECT	The Municipality’s government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position. Also, the Municipality is not in compliance with GASB 18 and the “Solid Waste Disposal Facility Criteria” issued by the U.S. Environmental Protection Agency.
RECOMMENDATION	I recommend management to perform the study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.

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

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-006 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS- MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE AND MAINTENANCE COSTS
MANAGEMENT RESPONSE	The numbers of the closing and post-closing costs related to the Municipal Solid Waste Landfill were updated for 2013-2014. Numbers for fiscal year 2015 were not provided by the Management Company operating the Solid Waste Landfill at the end of this period, and amortization of the numbers of the prior year certified amount were included in the financial statement.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-007
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT-ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
CONDITION	The Municipality formalized one (1) construction contract without all the required contract clauses.
CONTEXT	<p>In testing compliance with the procurement requirement, I examined one (1) contracts for construction projects (Grant Year 2013 and 2014) and noted that the contract did not included the following clauses:</p> <ul style="list-style-type: none">▪ A provision for compliance with executive order 11246;▪ A provision regarding retention of all required records for three years after grantees makes final payment and all other pending matters are closed;▪ A clause regarding the “Contract Work Hours & Safety Standards Act”;▪ A provision for access to Federal agencies to books, documents, etc.;▪ A clause regarding the compliance with the “Clean Air Act and Water Act” and the “Energy Policy and Conservation Act”;▪ A clause regarding the compliance with the “Copeland Anti-kickback”.
CRITERIA	Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13) states that subgrantee’s contract must contain provisions in paragraph (i) of these Sections. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.
CAUSE	The Contract Division of the Municipality failed to assure that the contracts formalized with contractors, included the required clauses.
EFFECT	The Municipality is not in compliance with Code of Federal Regulations, Subpart C, 24 CFR Section 85.36 (i) (1-13).

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-007 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANT- ENTITLEMENT GRANT (CFDA NO. 14.218) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
REQUIREMENT	INTERNAL CONTROL AND COMPLIANCE
NONCOMPLIANCE	PROCUREMENT AND SUSPENSION AND DEBARMENT
RECOMMENDATION	I recommend management to update the contract model according with the State and Federal requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE	During fiscal year 2015-2016, the contract model was updated to include the clauses required to assure compliance with the State and Federal requirements.

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following schedule contains the original number and title of each of the findings of federal awards included in the *Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133* and the Schedule of Prior Years' Audit Findings for the Fiscal Year ended June 30, 2015. The following legend indicates the current status of the prior years' audit findings:

ORIGINAL FINDING NUMBER	CFDA NUMBER	TITLE
2014-004	14.218	Davis Bacon Act Full corrective action has been taken.
2014-005	14.218	Matching, Level of Effort, Earmarking Finding was closed by the Department of Housing and Urban Development (HUD).
2014-006	14.218	Procurement, Suspension and Debarment No corrective action has been taken. The auditor reissued the finding for the current year. Finding reference 2015-006
13-III-06	14.218	Davis Bacon Act Full corrective action has been taken.
