

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

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

---

**COMMONWEALTH OF PUERTO RICO**  
**AUTONOMOUS MUNICIPALITY OF CIDRA**

---

**BASIC FINANCIAL STATEMENTS WITH  
ADDITIONAL REPORTS AND INFORMATION  
REQUIRED BY THE SINGLE AUDIT ACT**

---

**YEAR ENDED JUNE 30, 2015**

---



Autonomous Municipality of Cidra  
P.O. Box 729 Cidra, P.R. 00739-0729

**TABLE OF CONTENTS**

	Page
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-4
Required Supplementary Information (Part 1)	
Management's Discussion and Analysis	5-14
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Balance Sheet- Governmental Funds to	
Statement of Net Position	19
Reconciliation of the Statement of Revenues, Expenditures, and	
Changes in Fund Balances to the Statement of Activities	20
Notes to Basic Financial Statements	21-57
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	58
Notes to Budgetary Comparison Schedule-General Fund	59
Other Supplementary Information	
Financial Data Schedule – Balance Sheet	60
Financial Data Schedule - Income Statement	61
Notes to Financial Data Schedule	62
Schedule of Expenditures of Federal Awards	63-64
Notes to the Schedule of Expenditures of Federal Awards	65

**TABLE OF CONTENTS (CONTINUED)**

	Page
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Independent Auditors' Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	66-67
Independent Auditors' Report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	68-70
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of Findings and Questioned Costs	71-76
Summary Schedule of Prior Years Audit Findings	77-78



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Cidra, Puerto Rico** (Municipality), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund – State & Federal Grants	Unmodified
Debt Service Fund	Unmodified
Capital Projects Funds – State & Federal Grants	Unmodified
Aggregate Remaining Fund Information	Unmodified

### Basis for Qualified Opinion on Governmental Activities

The Municipality's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

### Qualified Opinion

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

### Unmodified Opinions

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



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' 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 on pages 5 through 14 and Budgetary Comparison information on page 58, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted historical pension information, as stated in GASB Statement No. 68, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Cidra's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages 60 and 61 are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – 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 basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016, on our consideration of the **Municipality's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the **Municipality's** internal control over financial reporting and compliance.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
March 4, 2016

Stamp No. 2705518 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Municipality of Cidra** (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. Also, this document includes comparative data with the prior year as this information was available for the fiscal year ended on June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2014-2015 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

## FINANCIAL HIGHLIGHTS

The financial condition and results of operations as reflected in the financial statements prepared for the fiscal year 2015 constitute factual evidence of the Municipality's economic situation by the end of such year. The following comments deserve special mention:

1. Total assets of the Municipality amounted to \$105,738,525 which represents an increase of 1% compared to the prior fiscal year.
2. At the end of fiscal year 2015, total liabilities amounted to \$49,863,136. Of this amount, \$38,053,458 corresponds to long-term liabilities of which \$33,560,310 represent the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position of the Municipality amounted to \$55,875,389, which represents an increase of 1% when compared to the prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$32,844,447 derived from the following sources: \$198,402 from charges for services; \$5,348,802 from operating grants and contributions; \$3,139,023 from capital grants and contributions obtained from other sources, and \$24,158,220 from general revenues available.

## FINANCIAL HIGHLIGHTS (CONTINUED)

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$32,071,499.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure of \$772,948.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$11,525,473.
8. In the fund financial statements, the governmental activities revenue increased \$731,918 (or 2%); nevertheless governmental activities expenditures increased \$2,811,870 (or 8%).
9. At the end of the current fiscal year, the Municipality's general fund balance reflects a deficit of (\$1,750,525), compared to a fund balance of (\$1,787,662) in the prior fiscal year.
10. The actual General Fund budgetary activities resulted in a favorable balance of \$166,063.

## FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The new approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during the fiscal year 2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

## FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government-wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

## FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the Municipality's constituents.

The Statement of Activities is focused on both gross and net cost of the various activities of the Municipality. It presents information which shows the changes in the Municipality's net position at the most recent fiscal year. Based on the use of the accrual basis of accounting, changes are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Under said approach, revenues and expenses are reported in the Statement of Activities based on the theory that it will result in cash flows to be realized in future periods.

The Fund Financial Statements are another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified-accrual accounting, which measures cash and all other financial assets that can be readily converted into cash.

The fund financial statement approach gives the user a short-term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

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 be better understand the long-term impact of the Municipality's near term financial decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure-roads, bridges, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in the government financial statements. GASB 34 requires that these assets be valued and reported within the Governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach) which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on the said basis.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

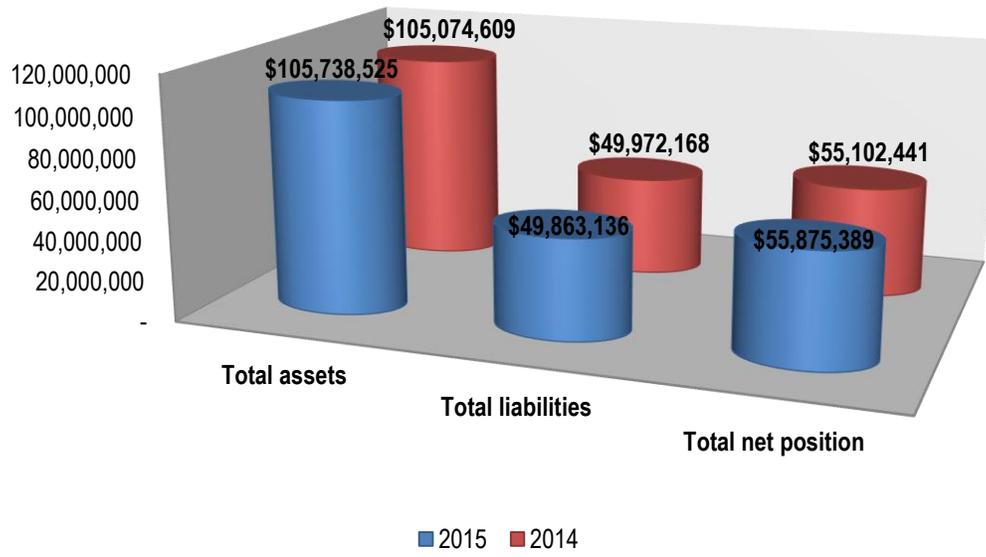
### Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality of Cidra, primary government assets exceeded total liabilities by \$55,875,389 at the end of 2015, as compared with \$55,102,441, which reflects an increase of \$772,948 over the previous fiscal year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis, the most important components of the \$772,948 increase reflected in the Net Position figure.

Condensed Statements of Net Position	2015	2014	Change	%
Current and other assets	\$ 24,378,876	\$ 24,665,472	(286,596)	(1%)
Capital assets, net of depreciation	81,359,649	80,409,137	950,512	1%
Total assets	105,738,525	105,074,609	663,916	1%
Current and other liabilities	11,809,678	11,047,277	762,401	7%
Long-term liabilities	38,053,458	38,924,891	(871,433)	(2%)
Total liabilities	49,863,136	49,972,168	(109,032)	(0.2%)
Net investment in capital assets	48,306,191	49,892,137	(1,585,946)	(3%)
Restricted	13,275,998	13,543,598	(267,600)	(2%)
Unrestricted deficit	(5,706,800)	(8,333,294)	2,626,494	(32%)
Total net position	\$ 55,875,389	\$ 55,102,441	772,948	1%

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Statement of Net Position**



***THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK***

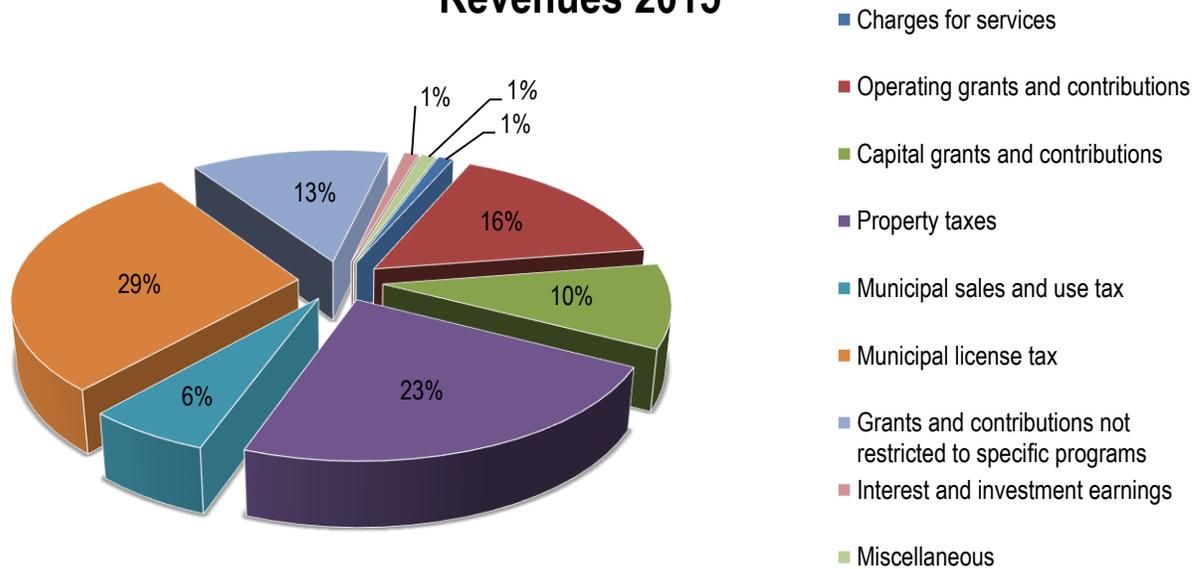
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)****Changes in Net Position**

The Municipality's net position increased by \$772,948. Approximately fifty-eight percent (58%) of the Municipality's total revenue came from taxes, while thirty-nine one percent (39%) resulted from grants and contributions, including federal aid. Charges for services provided one percent (1%), interest (1%) and miscellaneous (1%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2015 and 2014. Such analysis helps the reader to evaluate the municipal management's performance in the administration of its current financial operations.

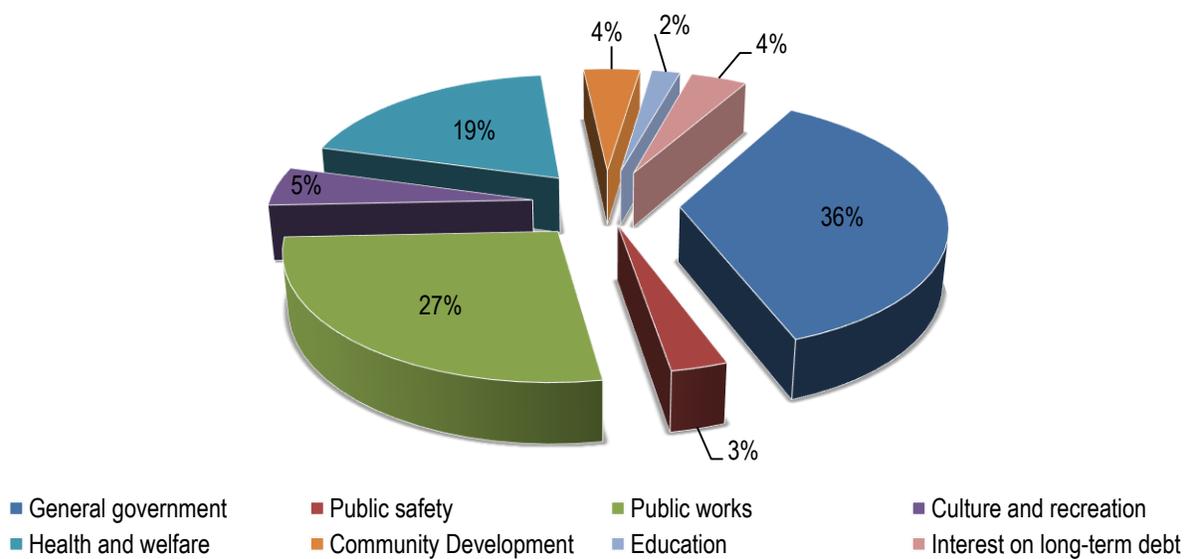
Condensed Statement of Activities	2015	2014	Change	%
<b>Program revenues:</b>				
Charges for services	\$ 198,402	\$ 356,213	\$ (157,811)	(44%)
Operating grants and contributions	5,348,802	3,914,751	1,434,051	37%
Capital grants and contributions	3,139,023	1,344,041	1,794,982	134%
<b>General revenues:</b>				
Property taxes	7,757,142	8,132,861	(375,719)	(5%)
Municipal sales and use tax	1,944,697	1,819,065	125,632	7%
Municipal license tax	9,494,916	9,239,663	255,253	3%
Grants and contributions not restricted to specific programs	4,366,479	6,408,656	(2,042,177)	(32%)
Interest	306,835	221,626	85,209	38%
Miscellaneous	288,151	249,215	38,936	16%
<b>Total revenues</b>	<u>32,844,447</u>	<u>31,686,091</u>	<u>1,158,356</u>	4%
<b>Expenses:</b>				
General government	11,638,717	12,564,450	(925,733)	(7%)
Public safety	1,096,155	1,031,457	64,698	(6%)
Public works	8,730,374	8,331,333	399,041	5%
Culture and recreation	1,344,816	2,074,220	(729,404)	(35%)
Health and welfare	6,117,842	4,515,256	1,602,586	35%
Community development	1,284,852	1,049,337	235,515	22%
Education	445,164	231,474	213,690	92%
Interest on long-term debt	1,413,579	1,401,781	11,798	1%
<b>Total expenses</b>	<u>32,071,499</u>	<u>31,199,308</u>	<u>872,191</u>	3%
Change in net position	772,948	486,783	286,165	59%
Net position, beginning of year	<u>55,102,441</u>	<u>54,615,658</u>	<u>486,783</u>	1%
Net position, end of year	<u>\$ 55,875,389</u>	<u>\$ 55,102,441</u>	<u>772,948</u>	1%

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Revenues 2015**



**Expenses 2015**



## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

As noted earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

### Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$11,525,473, an decreased of \$230,463 in comparison with the prior year. The combined fund balances include restricted fund balances amounting to \$13,274,390. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes (\$4,722,715); 2) to pay for capital projects (\$1,165,257); 3) to pay debt services (\$7,386,418). There are committed fund balance amounting to \$1,608 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for specific programs purpose. Consequently, since there is an excess of restricted and committed fund balances over total fund balances, a negative unassigned fund balance of (\$1,750,525) was reported in the governmental funds at June 30, 2015.

Governmental funds include the General Fund, which is the operating fund of the Municipality. As of June 30, 2015, the General Fund has an accumulated deficit of (\$1,750,525), which reflects a decrease when compared to the prior fiscal years, deficit balance of (\$1,787,662).

### GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2014-2015, the Municipal Legislature approved revisions to the operational budget that was prepared in accordance to the analysis of previous year's results. Despite of the balance budget, the expected amounts of revenues were not collected, as reflected in the exhibit. Budgetary Comparison Schedule-General Fund attached here to. The **Municipality of Cidra** current year operation had an excess of revenues over expenses of \$166,063.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

The Municipality's investment in capital assets as of June 30, 2015, amounted to \$120,755,173 which upon deduction of accumulated depreciation in the amount of \$39,395,524 produced a net book value attributable to capital assets in the amount of \$81,359,649. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets (continued)**

The total increase in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. Depreciation charges for the year totaled \$2,542,890.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has \$4,336,473 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, State and Federal Grants.

### **Debt Administration**

The Commonwealth Legislature of Puerto Rico has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such Municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

As mentioned in previous paragraphs in the notes of the Municipality's financial statements attached hereto, during the earlier months of the present year 2014, the Commonwealth Legislature approved Acts number 18 and 19. Through such legislation, the cash flow produced from collections by the municipalities of the sales and use taxes is completely restructured thru a creation of the Municipal Financial Corporations (known as COFIN in the Spanish anachronism) to provide additional liquidity to the Puerto Rico Government Development Bank's (GDB) weakened cash position. The new created affiliate to the GDB will receive those collections, and will assume the total indebtedness incurred by municipalities as of June 30, 2014. A portion estimated in .03% of total collections will be used for the payment of debt services requirement. In order to protect the municipality's cash flow, the GDB, on a monthly basis, will make advances to the municipalities included in the new arrangement, free of financing charges, equivalent to the monthly collections from the previous year. In the meantime, total liabilities incurred by de municipalities using the Municipal Redemption Fund will be refinanced and GDB will recover its borrowed cash.

### **DEBT ADMINISTRATION (CONTINUED)**

It is anticipated that under the arrangement, the municipalities will recover the total 1% of uses and sales tax and will get the assurance of future sources of financing either from GDB, from the new created affiliate or private financing institutions. Furthermore, the former Municipal Development Funds and the Bond Redemption funds will prevail under the new legislation. Its funding will be transferred from the .5% added to the Municipal Tax to be collected by the Secretary of the Treasury which will be first transfer to COFINA, which, upon compliance with its debt service obligation, will transfer .4% to each indicated municipal funds and .1% to a Municipal Improvement Fund, whose distribution to Municipalities will be determined by the Puerto Rico Legislative Assembly.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

### **FINAL COMMENTS**

The Municipality is a governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will response to the needs of the public and private sectors in accordance with its permissible revenues levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

The new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27, was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Municipality's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Municipality of Cidra could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Municipality's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

### **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, 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 the report or need additional financial information, contact the Municipality's Chief Financial Officer.

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 11,245,481
Cash with fiscal agents	11,722,891
Accounts receivable:	
Municipal license taxes	1,257
Other	46,611
Due from:	
Commonwealth Government	1,362,636
Capital assets:	
Land, improvements and construction in progress	26,798,844
Buildings, infrastructure and other capital assets, net of depreciation	54,560,805
Total capital assets	<u>81,359,649</u>
<b>Total assets</b>	<u>105,738,525</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,552,909
Due to:	
Commonwealth Government	517,190
Unearned revenues:	
Municipal license tax	8,713,581
Federal grant revenues	25,998
Noncurrent liabilities:	
Due within one year	4,163,995
Due in more than one year	<u>33,889,463</u>
<b>Total liabilities</b>	<u>49,863,136</u>
<b>Net Position</b>	
Net investment in capital assets	48,306,191
Restricted for:	
Capital projects	1,165,257
Debt service	7,386,418
Other purposes	4,724,323
Unrestricted (deficit)	<u>(5,706,800)</u>
<b>Total net position</b>	<u>\$ 55,875,389</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
General government	\$ 11,638,717	\$ 91,569	\$ 1,507,863	\$ -	\$ (10,039,285)
Public safety	1,096,155	51,057	214,744		(830,354)
Public works	8,730,374		1,706,029	3,139,023	(3,885,322)
Health and welfare	6,117,842		1,741,212		(4,376,630)
Culture and recreation	1,344,816	55,776	178,954		(1,110,086)
Community development	1,284,852				(1,284,852)
Education	445,164				(445,164)
Interest on long-term debt	1,413,579				(1,413,579)
<b>Total governmental activities</b>	<b>\$ 32,071,499</b>	<b>\$ 198,402</b>	<b>\$ 5,348,802</b>	<b>\$ 3,139,023</b>	<b>(23,385,272)</b>
General revenues:					
					7,757,142
					9,494,916
					1,944,697
					4,366,479
					306,835
					288,151
					<u>24,158,220</u>
					<u>772,948</u>
					<u>55,102,441</u>
					<u>\$ 55,875,389</u>

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Special Revenue Fund - State & Federal Grants	Debt Service Fund	Capital Projects Fund - State & Federal Grants		
<b>Assets</b>						
Cash and cash equivalents	\$ 7,290,175	\$ 3,532,856	\$ -	\$ 232,322	\$ 190,128	\$ 11,245,481
Cash with fiscal agents		2,915,287	7,386,418	1,421,186		11,722,891
Accounts receivable:						
Municipal licenses tax	1,257					1,257
Other	45,304				1,307	46,611
Due from:						
Commonwealth Government	990,960	275,275			96,401	1,362,636
Other funds	1,029,335					1,029,335
<b>Total assets</b>	<b>\$ 9,357,031</b>	<b>\$ 6,723,418</b>	<b>\$ 7,386,418</b>	<b>\$ 1,653,508</b>	<b>\$ 287,836</b>	<b>\$ 25,408,211</b>
<b>Liabilities, Deferred Inflows of Resources and Fund balances (deficit)</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$ 885,825	\$ 1,432,900	\$ -	\$ 215,023	\$ 19,161	\$ 2,552,909
Due to:						
Commonwealth Government	517,190					517,190
Other funds		508,399		273,228	247,708	1,029,335
Unearned revenues:						
Municipal license taxes	8,713,581					8,713,581
Federal grant revenues		25,998				25,998
<b>Total liabilities</b>	<b>10,116,596</b>	<b>1,967,297</b>	<b>-</b>	<b>488,251</b>	<b>266,869</b>	<b>12,839,013</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenues - Property taxes	351,643					351,643
Unavailable revenues - Commonwealth Government	639,317					639,317
Unavailable revenues - Federal grants		52,765				52,765
<b>Total deferred inflows of resources</b>	<b>990,960</b>	<b>52,765</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,043,725</b>
<b>Fund Balances (deficit)</b>						
Restricted		4,701,748	7,386,418	1,165,257	20,967	13,274,390
Committed		1,608				1,608
Unassigned	(1,750,525)					(1,750,525)
<b>Total fund balances (deficit)</b>	<b>(1,750,525)</b>	<b>4,703,356</b>	<b>7,386,418</b>	<b>1,165,257</b>	<b>20,967</b>	<b>11,525,473</b>
<b>Total liabilities, deferred inflows of resources and fund balances (deficit)</b>	<b>\$ 9,357,031</b>	<b>\$ 6,723,418</b>	<b>\$ 7,386,418</b>	<b>\$ 1,653,508</b>	<b>\$ 287,836</b>	<b>\$ 25,408,211</b>

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Special Revenue Fund - State & Federal Grants	Debt Service Fund	Capital Projects Fund - State & Federal Grants		
<b>Revenues</b>						
Property taxes	\$ 4,871,228	\$ -	\$ 2,885,914	\$ -	\$ -	\$ 7,757,142
Municipal sales and use taxes		1,261,106	683,591			1,944,697
Municipal license taxes	9,494,916					9,494,916
Licenses, permits and other local taxes	387,811	1,072				388,883
Charges for services	24,558	67,011				91,569
Intergovernmental	5,750,140	2,277,465				8,027,605
Fines and forfeitures	55,776					55,776
Rent of property	42,057	9,000				51,057
Interest	306,835					306,835
Federal grants		225,616			2,510,541	2,736,157
Miscellaneous	288,151	163,062			77,722	528,935
<b>Total revenues</b>	<b>21,221,472</b>	<b>4,004,332</b>	<b>3,569,505</b>	<b>-</b>	<b>2,588,263</b>	<b>31,383,572</b>
<b>Expenditures</b>						
Current:						
General government	10,322,334	2,394,878		44,700	19,342	12,781,254
Public safety	1,250,627	4,324				1,254,951
Public works	4,782,395	1,510,844			15,515	6,308,754
Health and welfare	3,201,620	2,037,231		26,266	1,226,055	6,491,172
Culture and recreation	1,764,733	1,226,774				2,991,507
Economic development						-
Community development	63,595	68,068		21,522	567,703	720,888
Education	308,540	141,556			56,142	506,238
Capital outlays				1,466,836		1,466,836
Debt service:						
Principal			2,060,000		421,000	2,481,000
Interest			1,151,428		262,151	1,413,579
<b>Total expenditures</b>	<b>21,693,844</b>	<b>7,383,675</b>	<b>3,211,428</b>	<b>1,559,324</b>	<b>2,567,908</b>	<b>36,416,179</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(472,372)</b>	<b>(3,379,343)</b>	<b>358,077</b>	<b>(1,559,324)</b>	<b>20,355</b>	<b>(5,032,607)</b>
<b>Other financing sources (uses)</b>						
Transfers in	1,141,481	244,627	387,345			1,773,453
Transfers out	(631,972)	(647,000)	(494,481)			(1,773,453)
Long-term debt issued		2,539,310				2,539,310
Bond issuance costs		(16,574)				(16,574)
Total other financing sources (uses)	509,509	2,120,363	(107,136)	-	-	2,522,736
<b>Special items</b>						
Proceeds from sale of Building		2,279,408				2,279,408
Net change in fund balances (deficit)	37,137	1,020,428	250,941	(1,559,324)	20,355	(230,463)
<b>Fund balance (deficit), beginning</b>	<b>(1,787,662)</b>	<b>3,682,928</b>	<b>7,135,477</b>	<b>2,724,581</b>	<b>612</b>	<b>11,755,936</b>
<b>Fund balance (deficit), at end year</b>	<b>\$ (1,750,525)</b>	<b>\$ 4,703,356</b>	<b>\$ 7,386,418</b>	<b>\$ 1,165,257</b>	<b>\$ 20,967</b>	<b>\$ 11,525,473</b>

**Total Fund Balances - Governmental Funds** \$ 11,525,473

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. In the current period, these amounts are:

Non-depreciable capital assets	\$ 26,798,844	
Depreciable capital assets	93,956,329	
Accumulated depreciation	<u>(39,395,524)</u>	
Total Capital Assets		81,359,649

Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:

Due from Commonwealth Government:		
Property taxes - General Fund	351,643	
P.R. Electric Power Authority (PREPA)	561,442	
Christmas bonus reimbursement	77,875	
Others	<u>52,765</u>	
		1,043,725

Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:

General obligation bonds and notes	(29,099,310)	
Section 108 Loan Guarantee notes payable	(4,461,000)	
Compensated Absences	(3,130,153)	
Landfill Obligation	(483,000)	
Payable to PREPA	(561,442)	
Christmas Bonus	<u>(318,553)</u>	
Total Long-Term Liabilities		<u>(38,053,458)</u>

**Total Net Position of Governmental Activities** \$ 55,875,389

**Net Change in Fund Balances - Total Governmental Funds** \$ (230,463)

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

Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Expenditures for capital assets	\$ 6,107,389	
Less: current-year depreciation	(2,542,890)	3,564,499

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Property taxes - General Fund (current year)	351,643	
P.R. Electric Power Authority (PREPA)	561,442	
Christmas bonus reimbursement (current year)	77,875	
Federal grants	52,765	1,043,725

Revenues reported in the funds that are not reported as revenues in the Statement of Activities:

P.R. Electric Power Authority (PREPA) (prior year)	(1,376,709)	
Christmas bonus reimbursement (prior year)	(146,791)	
Property taxes (prior year)	(237,037)	
Federal grants	(101,722)	(1,862,259)

Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.

(2,613,987)

Proceeds from general obligation bonds is an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position

(2,539,310)

Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	2,481,000	
Other long-term liabilities	1,556,371	4,037,371

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:

Compensated absences	(308,075)	
Christmas Bonus	(318,553)	(626,628)

**Change in Net Position of Governmental Activities**

\$ 772,948

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Cidra** (the Municipality) was founded in the year 1809. The Municipality's government system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides public safety, public works, culture and recreation, health and welfare, urban development, education, economic development, and other miscellaneous services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

### A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Autonomous Municipality of Cidra (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if it meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

In addition, "special criteria" applies when evaluating a legally separate, tax-exempt organization as potential component unit. Specifically, such entities must be treated as component units if they meet all of the following criteria:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A. Financial reporting entity (continued)

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

There are two methods of presentation of the component unit in the financial statements: (a) *blending* the financial data of the component units' balances and transactions and (b) *discrete* presentation of the component unit's financial data. When a component unit functions as an integral part of the primary government, its data is *blended* with those of the primary government ("*blended component units*"). That is, the component unit's funds are treated just as though they were funds of the primary government with one exception: the general fund. Component units should be reported as blended if meets any of the following criteria:

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:
  - A financial benefit/ burden exist between the primary government and the entity or
  - Management of the primary government has operational responsibility for the primary government.
2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
3. The component unit's debt is expected to be paid by the primary government.

Otherwise, the component unit should be presented as discrete. Those component units does not function as an integral part of the primary government and its data is presented discretely (separately) from the data of the primary government ("*discretely component units*"). Legally separate, tax-exempt organizations that meet the special criteria should be included as *discretely component units*.

Based on the above criteria, there are no potential component units which should be included as part of the financial statements.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial statement presentation, measurement focus and basis of accounting

The financial report of the Municipality consists of the Management's Discussion and Analysis (MD&A), basic financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus:

#### **Management's Discussion and Analysis**

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

#### **Basic financial statements**

The basic financial statements include both the government-wide and fund financial statements. Both sets of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

#### **Government-wide Financial Statements (GWFS)**

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are prepared using the *economic resources* measurement focus, which refers to the reporting of all of the net position available to the governmental unit for the purpose of providing goods and services to the public. The statements are reported on the *accrual basis of accounting*. Revenues are recognized in the period earned and expenses in the period in which the associated liability is incurred, regardless of the timing of related cash flows. Fiduciary activities, if any, whose resources are not available to finance government programs, are excluded from the government-wide statements. The effect of inter-fund activities is eliminated.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. Direct expenses are those that are clearly identifiable with a specific function. As a policy, indirect expenses are not allocated in the Statement of Activities. Program revenues must be directly associated with the function.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial statement presentation, measurement focus and basis of accounting (continued)

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed nonexchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

#### **Fund Financial Statements (FFS)**

The financial transactions of the Municipality are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose which helps management in demonstrating compliance with legal, financial and contractual provisions. Governmental Funds are those through which most governmental functions of the Municipality are financed. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances with one column for the general fund, one for each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criteria, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental funds:

**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.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial statement presentation, measurement focus and basis of accounting (continued)

**Special Revenue Fund - State and Federal Grants** – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed 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 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 major governmental used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) “CAE Fund,” the sinking fund which accounts for the 2% of property taxes collected by the Municipal Revenue Collection Center (CRIM); 2) “Municipal Redemption Fund,” the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund’s operating revenues.

**Capital Projects Fund – State and Federal Grants** – is a major governmental fund used to account for and report financial resources that are restricted or committed 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 other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*).

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### B. Financial statement presentation, measurement focus and basis of accounting (continued)

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available. There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

The Municipality reports unearned revenues in the governmental funds statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants, if resources are received before allowable expenditures are incurred). In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the balance sheet and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying Balance Sheet – Governmental Funds of the FFS. Likewise, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are also not accounted for in the FFS.

Since the FFS are presented on a different measurement focus and basis of accounting than the GWFS, reconciliation is necessary to explain the adjustments needed to transform the FFS into the GWFS. This reconciliation is part of the financial statements.

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

B. Financial statement presentation, measurement focus and basis of accounting (continued)

**Notes to financial statements**

The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

**Required Supplementary Information (RSI)**

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability and the Schedule of Municipality Contributions, as required by GASB.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

**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 (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed 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 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.

**Capital Projects Fund** – is a governmental fund used to account for and report financial resources that are restricted or committed 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.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. Financial reporting presentation

**Debt Service Fund** – is a major 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 been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

### D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards. The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

The laws and regulations of the Commonwealth of Puerto Rico authorize the Municipality to invest only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by the GDB.

### E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

### F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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

**G. Interfund receivables and payables**

Activities among funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances among funds are reported as “due from/to other funds”.

Advances between funds, as reported in the fund financial statements, if any, are reported as “nonspendable” in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

**H. Inventories**

The Municipality purchases gasoline, oil and other expendable supplies held for consumption. The cost of those purchases is recorded as expenditure when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Position, as management believes is not significant.

**I. Capital assets**

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

In accordance with current accounting standards, capital assets are reviewed for impairment. Impairment occurs when there is a significant decline in asset service utility due to the occurrence of a prominent event or change in circumstances affecting the asset. Current standards provide guidance for accounting and reporting for impairment and for insurance recoveries.

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****J. Deferred outflows/inflows of resources**

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

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.
3. **Deferred outflows/inflows of resources related to pensions** – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

**K. Long-term obligations**

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the general fund.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave.

Upon separation from employment the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

Pursuant to Law No. 152 of August 20, 1996 effective July 1, 1997 the Municipality is required to pay any excess of vacations and sick leave accumulated over 90 days as of December 31 of each year. Payments should be made on or before March 31 of the following year.

### M. Claims and judgments

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

***THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK***

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N. Net position

In the government-wide statements, assets plus deferred outflows of resources less liabilities and deferred inflows of resources equal net position, and should be displayed in three components: net investment in capital assets, restricted, and unrestricted, as follows:

**Net investment in capital assets:** Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. The portion of the debt or deferred inflows of resources attributable to the unspent debt proceeds is not included in the calculation of net investment in capital assets. Instead, the portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

**Restricted net position:** The restricted component of net position consists of restricted assets (subject to restrictions beyond the Municipality's control) reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Restrictions are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or imposed by the law through constitutional provisions or enabling legislation.

**Unrestricted net position:** Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position is often designated to indicate that management does not consider them to be available for general operations. These types of constraints are internal and management can remove or modify them.

### O. Net position flow assumption

Sometimes, the government will fund outlays for a particular purpose from both restricted (restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****P. Fund balances**

The GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB No. 54") establish accounting and reporting standards for all governments that report governmental funds. It also establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. These classifications comprise a hierarchy based primarily on the extent to which the Municipality is bound to observe constraints upon the use of the resources reported. The classifications are as follows:

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### P. Fund balances (continued)

**Unassigned:** Is the residual classification for the general fund and includes all spendable amounts not restricted, committed or assigned. The general fund is the only fund that reports a positive unassigned fund balance amount. For all other governmental funds the unassigned classification is used only to report a deficit balance resulting for the overspending for specific purposes for which amounts had been restricted, committed or assigned.

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 balances amounts as of for the fiscal year ended June 30, 2015.

### Q. Fund balance flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASBS No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amended GASBS No.68.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, the net pension liability, pension expense and deferred outflows/inflows of resources recognized in the accompanying basic financial statements are equal to the Municipality's proportionate shares of the collective net pension liability, pension expense and collective deferred outflows/inflows of resources reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****R. Accounting for pension costs (continued)**

For the purpose of applying the requirements of GASBS Nos. 68 and 71, 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), a multi-employer hybrid defined contribution plan in which the employees of the Municipality participate. The Municipality is considered a participant, and not a sponsor, of this retirement system since the majority of the participants in the aforementioned pension trust fund are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement system are part of the Commonwealth's financial reporting entity.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the ESR plan and additions to/reductions from the ESR plan's fiduciary net position have been determined on the same basis as they are reported by the ESR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**S. Interfund and intra-entity transactions**

The Municipality has the following types of transactions among funds:

- a. **Operating transfers** - Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.
- b. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

**T. Risk financing**

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### T. Risk financing (continued)

suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico 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 due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

### U. Use of Estimates

The preparation of the basic financial statements in conformity with USGAAP requires management to make 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 revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

### V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 72 "Fair Value Measurement and Application."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **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."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
4. **GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).

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

**V. Future adoption of accounting pronouncements**

5. **GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

**W. Subsequent events**

Subsequent events have been evaluated through March 4, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

***THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK***

## 2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain 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: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) 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 and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, 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 does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the 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: (1) not including debt investments in its investment portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interests bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** - In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality 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 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 uncollateralized.

However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

**Foreign exchange risk** - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in 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. Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

**Deposits** - The Municipality's bank balances in commercial banks of \$7,290,175 in the general fund, \$3,532,856 in the special revenue fund, \$232,322 in the capital projects funds – state and federal grants and \$190,128 in the others governmental funds were fully collateralized at June 30, 2015.

The deposits at GDB of \$2,915,287 in the special revenue fund, \$7,386,418 in the debt service fund restricted and \$1,421,186 in the capital projects fund – state and federal grants are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. Municipal License Tax** - The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

1. Financial business- 1.50% of gross revenues
2. Other organizations- 0.50% of gross revenues

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15.

Municipal license tax receivable of \$1,257 represents filed municipal license tax returns that were uncollected as of June 30, 2015, net of allowance for uncollectible accounts. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year is recorded as deferred revenues.

**B. Other accounts receivable** – The \$45,304 reported as other accounts receivable consists of the following:

<u>Description</u>	<u>Amount</u>
Accrued interest on CD investments	\$ 21,738
Charges for ambulance services	23,566
Other	<u>1,307</u>
<b>Total</b>	<b><u>\$ 46,611</u></b>

**4. DUE FROM GOVERNMENTAL ENTITIES**

A. Amounts due from governmental entities as of June 30, 2015 are as follows:

	<u>Commonwealth Government</u>
<b><u>Major fund – General fund:</u></b>	
P.R. Electric Power Authority (PREPA)	\$ 561,442
P.R. Department of Treasury – Christmas bonus reimbursement	77,875
Municipal Revenue Collection Center (CRIM) – property taxes	351,643
<b><u>Major fund – Special Revenue Fund</u></b>	
P.R. Department of Family - Socioeconomic Development Administration – TANF	22,001
P.R. Department of Family – Child Care Development Block Grant	30,764
P.R. Department of Family - Administration for the Care and Integral Development of Children –	100,922
Others	121,588
<b><u>Other Governmental Funds</u></b>	
Commonwealth of Puerto Rico Governor Authorized Representative – Disaster – Public Assistance	96,401
	<u><u>\$ 1,362,636</u></u>

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related note 8.

**5. INTERFUND TRANSACTIONS**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds” (i.e., current portion of interfund loans).

Interfund receivables and payables at June 30, 2015 are summarized as follows:

**a. Due from/to other fund:**

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 1,029,335	\$ -
Special Revenue Fund		508,399
Capital Projects Funds		273,228
Other Governmental Funds	-	247,708
<b>Total</b>	<u><u>\$ 1,029,335</u></u>	<u><u>\$ 1,029,335</u></u>

**5. INTERFUND TRANSACTIONS**

**b. Transfer in/out to other fund**

Following is a summary of interfund transfers for the year:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Transfers of funds to cover debt service payments	\$ 387,345
General Fund	Debt Service Fund	Transfers funds for special projects	244,627
Debt Service Fund	General Fund	Available in sinking fund for commitments	494,481
Special Revenue Funds	General Fund	Transfers funds for special purposes	<u>647,000</u>
<b>Total Governmental Fund Financial Statements</b>			<b><u>\$ 1,773,453</u></b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2015 are summarized as follows:

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund – State &amp; Federal Grants</u>	<u>Capital Projects Fund – State &amp; Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 809,010	\$ 1,432,900	\$ 215,023	\$ 19,161	\$ 2,476,094
Accrued liabilities	<u>76,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,815</u>
<b>Total</b>	<b><u>\$ 885,825</u></b>	<b><u>\$ 1,432,900</u></b>	<b><u>\$ 215,023</u></b>	<b><u>\$ 19,161</u></b>	<b><u>\$ 2,552,909</u></b>

**7. DUE TO OTHER GOVERNMENTAL ENTITIES**

The amounts due to other governmental entities in the general fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
Government of Puerto Rico Employees Association	\$ 30,850
Retirement System Administration	387,037
Internal Revenue Services	11,317
Puerto Rico Aqueduct and Sewer Authority	59,177
Others	<u>28,809</u>
<b>Total</b>	<b><u>\$ 517,190</u></b>

**8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

As required by current standards, revenues and other governmental fund financial resources should be recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund’s financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Property Taxes</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund - General fund:</u></b>			
Municipal Revenue Collection Center (CRIM) – property taxes	\$ 351,643	\$ -	\$ -
P.R. Electric Power Authority (PREPA)		561,442	
P.R. Department of Treasury – Christmas bonus reimbursement		77,875	
<b><u>Major fund – Special revenue fund:</u></b>			
P.R. Department of Family - Socioeconomic Development Administration – TANF			22,001
P.R. Department of Family – Child Care Development Block Grant			30,764
	<u>\$ 351,643</u>	<u>\$ 639,317</u>	<u>\$ 52,765</u>

**9. UNEARNED REVENUES**

The amounts reported as unearned revenues as of June 30, 2015 are detail as follows:

	<u>Amount</u>
<b><u>Major fund – General fund:</u></b>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 8,713,581
<b><u>Special Revenue Fund – State &amp; Federal Grants:</u></b>	
Federal grants received for which qualifying expenditures have not been incurred: Child Care Development Block Grant	25,998
	<u>\$ 8,739,579</u>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

**10. FUND BALANCE (DEFICIT)**

As of June 30 2015, fund balance is comprised of the following:

<u>Fund Balance (Deficit)</u>	<u>General Fund</u>	<u>Special Revenue Fund State &amp; Federal Grants</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund - State &amp; Federal Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Restricted for:</b>						
General government	\$ -	\$ 470,335	\$ -	\$ 114,201	\$ -	\$ 584,536
Public safety		329,122				329,122
Public work		940,349				940,349
Health and welfare		533,280		5,335		538,615
Culture and recreation		611,227				611,227
Community development		1,817,435		1,045,721	20,967	2,884,123
Debt service			7,386,418			7,386,418
<b>Committed:</b>						
Health and welfare		1,608				1,608
<b>Unassigned</b>	<u>(1,750,525)</u>					<u>(1,750,525)</u>
<b>Total Fund Balance</b>	<u>\$ (1,750,525)</u>	<u>\$ 4,703,356</u>	<u>\$ 7,386,418</u>	<u>\$ 1,165,257</u>	<u>\$ 20,967</u>	<u>\$ 11,525,473</u>

***THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK***

## 11. CAPITAL ASSETS

Capital assets, those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$100 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

<b>Governmental Activities:</b>	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Balance June 30, 2015</b>
Capital asset, not being depreciated:				
Construction in progress	\$ 920,102	\$ 1,888,948	\$ (1,465,511)	\$ 1,343,539
Land	<u>25,455,305</u>	<u>-</u>	<u>-</u>	<u>25,455,305</u>
<b>Total capital assets not being depreciated</b>	<u>26,375,407</u>	<u>1,888,948</u>	<u>(1,465,511)</u>	<u>26,798,844</u>
Capital assets, being depreciated:				
Buildings and building improvements	43,409,344	1,002,526	(1,162,807)	43,249,063
Infrastructure and infrastructure improvements	35,637,375	2,634,803	(595)	38,271,583
Equipment	3,732,821	235,490	(353,643)	3,614,668
Furnishings	1,480,269	25,109	(33,988)	1,471,390
Computers	624,379	48,623	(75,829)	597,173
Works of art	6,602	-	-	6,602
Vehicles	<u>6,636,201</u>	<u>271,890</u>	<u>(162,241)</u>	<u>6,745,850</u>
<b>Total capital assets being Depreciated</b>	<u>91,526,991</u>	<u>4,218,441</u>	<u>(1,789,103)</u>	<u>93,956,329</u>
Less accumulated depreciation for:				
Buildings and building improvements	(12,312,932)	(1,091,908)	19,380	(13,385,460)
Infrastructure and Infrastructure improvements	(13,719,256)	(976,197)	69	(14,695,384)
Equipments	(3,526,274)	(126,832)	349,200	(3,303,906)
Furnishings	(1,397,567)	(28,513)	33,988	(1,392,092)
Computers	(590,544)	(31,655)	75,749	(546,450)
Works of art	(4,917)	(660)	-	(5,577)
Vehicles	<u>(5,941,771)</u>	<u>(287,125)</u>	<u>162,241</u>	<u>(6,066,655)</u>
<b>Total accumulated depreciation</b>	<u>(37,493,261)</u>	<u>(2,542,890)</u>	<u>640,627</u>	<u>(39,395,524)</u>
<b>Total capital assets being depreciated, net</b>	<u>54,033,730</u>	<u>1,675,551</u>	<u>(1,148,476)</u>	<u>54,560,805</u>
<b>Governmental activities capital assets, net</b>	<u>\$80,409,137</u>	<u>\$ 3,564,499</u>	<u>\$ (2,613,987)</u>	<u>\$81,359,649</u>

## 11. CAPITAL ASSETS (CONTINUED)

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

<u>Governmental activities:</u>	<u>Amount</u>
General government	\$ 631,744
Public safety	146,573
Public works	986,338
Health and welfare	101,187
Culture and recreation	252,335
Community development	<u>424,713</u>
Total depreciation expense-governmental activities	<u>\$ 2,542,890</u>

## 12. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 20,980,000	\$ -	\$ (1,160,000)	\$ 19,820,000	\$ 1,240,000
Notes Payable	7,640,000	2,539,310	(900,000)	9,279,310	1,131,000
Section 108 - LGA	4,882,000	-	(421,000)	4,461,000	446,000
Compensated Absences	3,200,141	308,075	(378,063)	3,130,153	420,000
Landfill Obligation	530,000	-	(47,000)	483,000	47,000
Payable to PREPA	1,376,709	-	(815,267)	561,442	561,442
Christmas Bonus	<u>316,041</u>	<u>318,553</u>	<u>(316,041)</u>	<u>318,553</u>	<u>318,553</u>
<b>Total</b>	<u>\$ 38,924,891</u>	<u>\$ 3,165,938</u>	<u>\$ (4,037,371)</u>	<u>\$ 38,053,458</u>	<u>\$ 4,163,995</u>

- Legal Debt Margin** - The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.
- Bonds Payable** - The Municipality issues general and special obligation bonds to provide funds for the acquisition and construction of major capital facilities. Bonds payable outstanding at June 30, 2015 are as follows:

<u>Description</u>	<u>Balance at June 30, 2015</u>
1996 General obligation bond for the acquisition of real estate with an original amount of \$605,000 due in annual installments of \$25,000 to \$50,000, through July 1, 2021, with interest of 4.86% to 6.75%	\$ 295,000
1999 General obligation bond for the acquisition of real estate with an original amount of \$260,000 due in annual installments of \$5,000 to \$25,000 through July 1, 2024, with interest of 2.70% to 7.81%	165,000
1999 General obligation bond for blue prints drawings, permits, structure demolition and debris disposition with an original amount of \$710,000 due in installments of \$20,000 to \$60,000 through July 1, 2024, with interest ranging from 2.8% to 7.8%	445,000

**12. LONG-TERM LIABILITIES (CONTINUED)**

Description	Balance at June 30, 2015
2000 General obligation bond for the construction of capital assets with an original amount of \$6,440,000 due in installments of \$175,000 to \$560,000 through July 1, 2025, with interest ranging from 2.70% to 7.80%	4,305,000
2002 Special obligation bond for asphalt municipal streets, roads and to finance operational loan with an original amount of \$1,335,000 due in installments of \$65,000 to \$120,000 through July 1, 2026, with interest ranging from 5.0% to 6.5%	625,000
2002 Special obligation bond for the acquisition of real estate with an original amount of \$580,000 due in installments of \$20,000 to \$45,000 through July 1, 2026, with interest ranging from 5.0% to 6.5%	380,000
2004 Special obligation bond for the construction of a capital assets with an original amount of \$4,020,000 due in installments of \$115,000 to \$280,000 through July 1, 2029, with interest ranging from 5.0% to 12.0%	2,885,000
2005 General obligation bond for the construction of capital assets with an original amount of \$435,000 due in installments of \$10,000 to \$30,000 through July 1, 2029, with interest ranging from 4.37% to 5.00%	320,000
2005 General obligation bond for asphalt municipal streets, roads and for construction of capital assets with an original amount of \$730,000 due in installments of \$35,000 to \$75,000 through July 1, 2014, with interest ranging from 4.23% to 4.80%	415,000
2006 General obligation bond for the construction of capital assets with an original amount of \$5,050,000 due in annual installments of \$100,000 to \$410,000, through July 1, 2031, with interest of 6.62% to 7.25%	4,230,000
2008 General obligation bond for the construction of capital assets with an original amount of \$1,580,000 due in annual installments of \$130,000 to \$215,000 through July 1, 2017, with interest of 7.50%	600,000
2010 General obligation bond to compensate budgetary obligations with an original amount of \$1,980,000 due in installments of \$25,000 to \$165,000, through July 1, 2024, with interest ranging from 5.0% to 7.5%	1,815,000
2011 Special obligation bond for the construction of capital assets with an original amount of \$2,015,000 due in installments of \$140,000 to \$275,000 through July 1, 2020, with interest ranging from 6.00% to 7.50%	1,380,000
2011 Special obligation bond for operational expenses with an original amount of \$1,020,000 due in installments of \$10,000 to \$85,000 through July 1, 2035, with interest ranging from 6.00% to 7.50%	960,000
2014 Special obligation bond for asphalt municipal streets, roads and for construction of capital assets with an original amount of \$1,010,000 due in installments of \$10,000 to \$85,000 through July 1, 2038, with interest ranging from 6.00% to 7.50%	<u>1,000,000</u>
Total	<u>\$ 19,820,000</u>

## 12. LONG-TERM LIABILITIES (CONTINUED)

These bonds are payable from the special ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The series 2011 of \$1,020,000, is payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

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

Year Ending June 30,	Principal	Interest
2016	\$ 1,240,000	\$ 907,598
2017	1,330,000	1,135,538
2018	1,435,000	1,048,706
2019	1,300,000	963,774
2020	1,390,000	881,358
2021-2025	6,320,000	3,216,438
2026-2030	4,270,000	1,545,137
2031-2035	2,140,000	472,600
2036-2040	395,000	51,562
Total	<u>\$ 19,820,000</u>	<u>\$ 10,222,711</u>

3. **Notes Payable** - The proceeds of the issuance of notes payable were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2015
2008 Special obligations notes	7-1-32	3,170,000	7.50%	\$ 2,800,000
2010 General obligations notes	7-1-16	390,000	6.00% to 7.50%	135,000
2011 Special obligations notes	7-1-18	1,005,000	7.50%	635,000
2012 General obligations notes	7-1-18	1,010,000	6.00% to 7.50%	640,000
2012 General obligations notes	7-1-18	1,005,000	6.00% to 7.50%	635,000
2014 General obligations notes	7-1-20	2,140,000	6.00% to 7.50%	1,895,000
2015 General obligations notes	7-1-21	1,010,000	6.00% to 7.50%	1,529,310
2015 General obligations notes	7-1-22	1,529,310	6.00% to 7.50%	1,010,000
Total notes payable				<u>\$ 9,279,310</u>

These notes are payable from special ad valorem property tax of 1.75% and the Municipal sales and use tax of (.030%) which are restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Section 108 is payable from Special Revenue Fund – Federal Grant funds. The Series 2008 amounting \$3,170,000, and the Series 2011 amounting \$1,005,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Puerto Rico Treasury Department.

**12. LONG-TERM LIABILITIES (CONTINUED)**

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending June 30,	Principal	Interest
2016	\$ 1,131,400	\$ 383,940
2017	1,224,800	522,484
2018	1,233,500	438,116
2019	1,312,700	350,798
2020	837,200	278,697
2021-2025	1,854,710	828,837
2026-2030	935,000	466,688
2031-2035	750,000	87,375
Total	<u>\$ 9,279,310</u>	<u>\$ 3,356,935</u>

4. **Section 108 Loan Guarantee notes payable** – The Municipality entered into two (2) financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The first agreement was issued on June 30, 2004 in the amount of \$5,100,000 for land acquisition and buildings known as “Hotel Treasure Island”. This note is payable in annual installments of \$50,000 to \$450,000 through August 1, 2022. The second were issued on September 14, 2006 in the amounts of \$1,895,000 for “Bridge of Treasure Island”. This note is payable in annual installments of \$50,000 to \$122,000 through August 1, 2024. The payment of principal and interest of these notes are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program. Debt service requirements in future years are as follows:

Year Ending June 30,	Principal	Interest
2016	\$ 446,000	\$ 239,510
2017	471,000	215,038
2018	496,000	188,669
2019	521,000	160,367
2020	546,000	130,214
2021-2025	1,981,000	207,203
Total	<u>\$ 4,461,000</u>	<u>\$ 1,141,001</u>

5. **Compensated Absences**- The government-wide statement of net position includes approximately \$2,138,913 of accrued sick leave benefits, and approximately \$991,240 of accrued vacation benefits, representing the Municipality’s commitment to fund such costs from future operations.
6. **Landfill Obligation**- State and federal laws and regulations require the Municipality to place a final cover on its landfill site since 1994, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, “Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs”, the Municipality has performed a study of the activities that need to be implemented at the Municipality’s landfill to comply with applicable state and federal regulations.

**12. LONG-TERM LIABILITIES (CONTINUED)**

**6. Landfill Obligation (continued)**

Based on this study, the Municipality has recognized \$483,000 as the Municipality’s estimated current cost for landfill post-closure costs as of June 30, 2015. The annual estimate of post closure costs has been assessed approximately to be \$47,000 for a period of approximately 18 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of post-closure costs is reported in the government-wide statement of net position.

7. **Payable to PREPA** - As required by Act No. 83 of May 2, 1941, the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELL”) based on certain requirements as specified by the mentioned Act. The amount of CELL obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. However, PREPA has not yet issued the final liquidation for the fiscal year ended on June 30, 2014. Therefore, as of June 30, 2015, the outstanding amount of \$348,153 only includes the unamortized balance from fiscal year 2013, and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:

<u>June 30</u>	<u>Principal</u>
2016	<u>\$ 561,442</u>
<b>Total</b>	<b><u><u>\$ 561,442</u></u></b>

8. **Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$318,553.

**13. PROPERTY TAXES**

The personal property tax is self-assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of August 1991. Real property tax is assessed by the CRIM on each piece of real estate and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

### 13. PROPERTY TAXES

This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation for fiscal year 2015-2016 noting that the collections exceeded advances by \$351,643. In the governmental funds the entire receivable has been offset by a deferred inflow of resources since the excess was not available to pay liabilities of the current period. In the government-wide financial statements, the entire receivable is recognized as revenue.

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000.

The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26 1997, Public Law No. 21 was enacted, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible. In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of the Municipal Autonomous Law of 1991, the exempt amount to be paid by the Puerto Rico Treasury department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

**13. PROPERTY TAXES (CONTINUED)**

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2014-2015. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years.

**14. SALES AND USE TAXES**

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117") which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorizes each municipal government to impose a municipal sale and use tax of 1.5%. This municipal sales and use tax has in general the same tax base and limitations (except for unprocessed foods) as those provided by the Commonwealth's sales and use tax.

On July 29, 2007, the Commonwealth Legislature approved Act No. 80 (Act 80), which amends Act No. 117 of July 4, 2006 to impose to all the Municipalities of Puerto Rico a uniform municipal sales and use tax of 1.5%. Effective August 1, 2007, 1% of the 1.5% is collected by the Municipalities and the remaining .5% of the 1.5% is collected by the Puerto Rico Department of Treasury (PRDT).

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

Effective January 1, 2011, the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050, the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

#### 14. SALES AND USE TAXES (CONTINUED)

On June 30, 2013, the Commonwealth approved Act No. 40 which, among other things, reduces the municipal sales and use tax from 1.5% to 1% and increases the Commonwealth's sales and use tax from 5.5% to 6% effective December 1, 2013. This Act was subsequently amended to change this effective date from December 1, 2013 to February 1, 2014.

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

Act No. 18 creates a special fund called the Municipal Administration Fund (FAM), under the custody of the Government Development Bank of Puerto Rico (GDB), which permits the municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, the Commonwealth will deposit .5% in the FAM. Distribution to the municipalities will depend on whether the municipalities signed an agreement to be covered or not covered by the Act's provisions. The Municipality of Cidra signed the agreement to be covered.

For municipalities covered by the agreement, the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

For municipalities not covered by the agreement the .5% will be distributed as follows:

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

**14. SALES AND USE TAXES (CONTINUED)**

Act No. 19 creates the Municipal Finance Corporation (COFIM), a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax of 1%. The Act also includes special provisions for municipalities that do not want to be covered by the Act.

After July 1, 2014, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and thereafter will be 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the Municipal Redemption Fund as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act. These municipalities cannot obtain loans guaranteed by COFIM's sinking fund.

If at any moment the required deposits to the COFIM's sinking fund were not sufficient to pay the principal and interest of any outstanding obligation, the deficiency will be covered by appropriations of the Commonwealth's general fund budget.

Individuals, organizations and entities subject to the collection of the municipal sales and use tax must file a tax return to COFIM. The tax is due on or before the 20th day of each month based on the tax collected in the preceding month. COFIM has provided retailers three alternatives for the filling of the monthly return: 1) electronic filling through COFIM's internet portal; 2) in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico; and 3) in the collections offices of the municipalities that have been certified as collection agents of COFIM.

COFIM established a system of monthly advances for the transfers of the .2% destined for the Municipal Development Fund (FDM), the .2% related to the Municipal Redemption Fund (FRM) and the 1% of municipal sales and use tax. Each month, the GDB will make the FDM, FRM and 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM, FRM and the 1% sales and use tax with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances.

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Cidra, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to \$418,842, \$238,365 and \$1,261,106, respectively. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

## 15. PENSION PLAN

### General Information about the Pension Plan

As of June 30, 2015, regular employees of the Municipality contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation.

For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return. New participants under the hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 ( $\$5,000 \times .25\%$ ).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$954,427.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System.

## 15. PENSION PLAN (CONTINUED)

For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$307,758, of which \$65,009 (21%) was subsidized by the OMB.

### **Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions**

As per the requirements of the GASB Statements No. 67 and 68, ESR is required, as the pension plan's administrator, to provide to each of its participating employers audited actuarial and financial information used in the calculation of their proportionate share of the plan's net pension liability, pension expense and deferred outflows/inflows of resources related to pensions as of the measurement date. For the fiscal year ended June 30, 2015, the measurement date is June 30, 2014. In addition, the ESR has to provide all the required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI).

However, as indicated in the Basis for Adverse Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

## 16. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 15, 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, 2013, Act 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$326,184, of which \$147,900 (45%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

## 17. COMMITMENTS AND CONTINGENCIES

### A. Federal grants:

The Municipality participates in a number of Federal Financial Assistance Programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2015, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, not to be material.

### B. Claims and lawsuits:

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

### C. Other Commitments:

At June 30, 2015, the general fund has commitments of approximately \$133,601 for executor, purchase orders or contracts that will be honored during the subsequent year.

## 18. SUBSEQUENT EVENTS

### Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working group proposes the implementation of a control board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the control board, have been submitted to the Commonwealth Legislature for review and final approval.

### New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")

On October 16, 2015, the Puerto Rico Commission of Energy ("CEPR") approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes ("CELI"). These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

## 18. SUBSEQUENT EVENTS (CONTINUED)

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not-for-profit services to the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

Finally, the guidelines require that the municipalities implement efficiency and conservation measures for a reduction of 15% in the energy consumption to be incurred in the next three fiscal years. All of these requirements are effective beginning November 16, 2015 (fiscal year 2015-16).

### **Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities**

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

	Budgeted Amount		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 4,396,492	\$ 4,396,492	\$ 4,871,228	\$ 474,736
Municipal license tax	9,435,660	9,435,660	9,494,916	59,256
Fines and forfeiture	80,000	80,000	55,776	(24,224)
Licenses, permits and other local taxes	1,484,104	1,484,104	387,811	(1,096,293)
Charges for services	187,000	187,000	24,558	(162,442)
Intergovernmental	4,756,879	4,934,874	4,934,874	-
Interest	100,000	100,000	306,835	206,835
Rent of property	40,200	40,200	42,057	1,857
Miscellaneous	326,838	326,838	281,817	(45,201)
Transfer in	-	1,141,481	1,141,481	-
<b>Total revenues</b>	<u>20,807,173</u>	<u>22,126,649</u>	<u>21,541,353</u>	<u>(585,296)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
<b>FINANCING USES:</b>				
Current:				
General government	10,931,945	11,378,937	10,668,957	709,980
Public safety	1,217,127	1,267,963	1,250,627	17,336
Public works	4,801,702	4,965,245	4,833,765	131,480
Health and welfare	2,062,818	2,303,519	1,886,353	417,166
Culture and recreation	1,438,539	1,825,216	1,731,481	93,735
Community Development	71,010	71,010	63,595	7,415
Education	284,032	314,759	308,540	6,219
Operating transfer to other funds	-	-	631,972	(631,972)
<b>Total expenditures, encumbrances and other financing uses</b>	<u>\$ 20,807,173</u>	<u>\$ 22,126,649</u>	<u>21,375,290</u>	<u>751,359</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>			<u>\$ 166,063</u>	<u>\$ 166,063</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) available for appropriation from the budgetary comparison schedule				\$ 21,541,353
Non-budgeted revenues				<u>821,600</u>
Total revenues and other financing sources as reported in the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,362,953</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) total charges to appropriations from the budgetary comparison schedule				\$ 21,375,290
<b>Differences-budget to GAAP:</b>				
Non-budgeted expenditures				955,935
Prior year encumbrances recorded as current year expenditures for GAAP basis				128,192
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(133,601)</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 22,325,816</u>

**1. 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 USGAAP, 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 USGAAP 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, 2015 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2015.

<u>Line Item #</u>	<u>Description</u>	<b>Housing Choice Vouchers</b> (CFDA No. 14.871)
<b>BALANCE SHEET</b>		
<b>Assets</b>	<b>Current Assets Cash</b>	
111	Cash - Unrestricted	\$ 70,549
113	Cash - Other Restricted	7,884
<b>100</b>	<b>Total Cash</b>	<u>78,433</u>
122	Accounts Receivable - HUD Other Projects	1,307
<b>150</b>	<b>Total Current Assets</b>	<u>79,740</u>
	<b>Non-Current Assets</b>	
	<b>Fixed Assets:</b>	
164	Furniture, Equipment & Machinery - Administration	42,927
166	Accumulated Depreciation	(42,787)
<b>160</b>	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>140</u>
<b>180</b>	<b>Total Non-Current Assets</b>	140
<b>190</b>	<b>Total Assets</b>	<u>79,880</u>
<b>290</b>	<b>Total Assets and Deferred Outflow of Resources</b>	<u><u>\$ 79,880</u></u>
<b>Liabilities and Equity</b>	<b>Liabilities</b>	
<b>300</b>	<b>Total Liabilities</b>	-
<b>400</b>	<b>Deferred Inflow of Resources</b>	-
<b>Equity</b>	<b>Equity</b>	
508.4	Net Investment in Capital Assets	140
511.4	Restricted Net Position	7,884
512.4	Unrestricted Net Position	71,856
<b>513</b>	<b>Total Equity - Net Assets/Position</b>	<u>79,880</u>
<b>600</b>	<b>Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position</b>	<u><u>\$ 79,880</u></u>

See notes to the Financial Data Schedule.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
<b>INCOME STATEMENT</b>		
70600	HUD PHA Operating Grants	\$ 1,158,865
71400	Fraud Recovery	20
71500	Other Revenues	56,718
72000	Investment Income – Restricted	179
<b>70000</b>	<b>Total Revenues</b>	<u>1,215,782</u>
<b>Expenses Administrative:</b>		
91100	Administrative Salaries	92,592
91200	Auditing Fees	5,860
91500	Employee Benefit Contributions – Administrative	22,443
<b>91000</b>	<b>Total Operating – Administrative</b>	<u>120,895</u>
96200	Other General Expenses	4,310
<b>96000</b>	<b>Total Other General Expenses</b>	<u>4,310</u>
<b>96900</b>	<b>Total Operating Expenses</b>	<u>125,205</u>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	1,090,577
97300	Housing Assistance Payments	1,038,952
97350	HAP Portability-In	50,487
97400	Depreciation Expense	998
<b>90000</b>	<b>Total Expenses</b>	<u>1,215,642</u>
<b>10000</b>	<b>Excess (Deficiency) of Total Revenues Over (Under) Total Expenses</b>	<u><u>\$ 140</u></u>
<b>Memo Account Information:</b>		
*11030	Beginning Equity	\$ 79,202
*11170	Administrative Fee Equity	\$ 71,996
*11180	Housing Assistance Payments Equity	\$ 7,884
*11190	Unit Months Available	2,280
*11210	Number of Unit Months Available	2,168

See notes to the Financial Data Schedule

## **1. BASIS OF PRESENTATION**

The accompanying Financial Data Schedule (FDS) presents the financial position of the Section 8 Housing Choice Voucher Program, administered by the Municipality. The FDS was created in order to standardize the financial information reported by the Public Housing Authorities (PHA) to the Real Estate Assessment Center (REAC) as required by the Uniform Financial Reporting Standards (UFRS). REAC is the US Department of Housing and Urban Development (HUD) national management center created to assess the condition of HUD owned and assisted properties. The UFRS are rules to implement requirements of 24 CFR, Part 5, Subpart H, for the electronic filing of financial information to HUD.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>			
Pass-through Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not available	\$ 17,187
<b>Total U.S. Department of Agriculture</b>			<b>17,187</b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>			
Direct Program:			
CDBG – Entitlement Grants Cluster; Community Development Block Grants/Entitlement Grants	14.218	N/A	867,947
Continuum of Care Program	14.267	N/A	37,092
Section 8 Housing Choice Vouchers	14.871	N/A	1,158,865
Pass-through Commonwealth of Puerto Rico Family Department:			
Emergency Solution Grants Program	14.231	ESG-04-DC-720001	9,273
Pass-through Commonwealth of Puerto Rico Family Department:			
Homeless Prevention and Rapid Re-Housing	14.257	Not available	38,882
<b>Total U.S. Department of Housing and Urban Development</b>		Not available	<b>2,112,059</b>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Pass-through Commonwealth of Puerto Rico:			
Crime Victim Assistance Act	16.575	Not available	36,233
<b>Total U.S. Department of Justice</b>			<b>36,233</b>
<b><u>U.S. DEPARTMENT TRANSPORTATION:</u></b>			
Direct Programs:			
Formula Grants for Rural Areas	20.509	Not available	251,407
<b>Total U.S. Department of Transportation</b>			<b>251,407</b>

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>			
Pass-through the Commonwealth of Puerto Rico – Family Department (ACUDEN):			
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not available	380,078
Promoting Safe and Stable Families	93.556	Not available	19,170
Temporary Assistance for Needy Families	93.558	Not available	106,499
Community Service Block Grant	93.569	Not available	67,711
Child Care and Development Block Grant	93.575	CACFP 08-2011	277,702
Family Violence Prevention and Services	93.671	04F-2012-G	48,169
<b>Total U.S. Department of Health and Human Services</b>			<b>899,329</b>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></b>			
Pass-through the Commonwealth of Puerto Rico Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	Not available	12,931
<b>Total U.S. Department of Homeland Security</b>			<b>12,931</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 3,329,146</b>

**1. BASIS OF PRESENTATION**

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA’s fiscal period.

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

State or local government redistributions of federal awards to the Municipality, known as “pass-through awards”, should be treated by the Municipality as though 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 the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

**2. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENTS**

Description	Special Revenue Fund – State & Federal Grants	Others Governmental Funds
Total federal expenditures per Schedule of Expenditures of Federal Awards	1,012,045	2,317,101
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program		56,777
Non-federal awards expenditures	7,018,630	178,515
Total expenditures, fund statements	<u>8,030,675</u>	<u>2,552,393</u>

**3. SECTION 108 LOAN PAYMENTS**

For the fiscal year ended June 30, 2015, the Municipality paid the amount of \$421,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Cidra**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Autonomous Municipality of Cidra's** basic financial statements and have issued our report thereon dated March 4, 2016.

### Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items **2015-001** and **2015-002**, which we consider to be significant deficiencies.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Autonomous Municipality of Cidra's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Autonomous Municipality of Cidra's Response to Findings**

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

**Purpose of this Report**

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 4, 2016

Stamp No. 2705519 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

**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 the Municipal Legislature  
Autonomous Municipality of Cidra  
Cidra, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

We have audited **Autonomous Municipality of Cidra's** 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 of **Autonomous Municipality of Cidra's** major federal programs for the year ended June 30, 2015. **Autonomous Municipality of Cidra'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**

Our responsibility is to express an opinion on compliance for each of **Autonomous Municipality of Cidra's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Autonomous Municipality of Cidra's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

**Opinion on Each Major Federal Program**

In our opinion, **Autonomous Municipality of Cidra** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of the **Autonomous Municipality of Cidra** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the **Autonomous Municipality of Cidra's** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Cidra'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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses not significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

We noted certain matters that we reported to management of the Municipality in a separate letter dated March 4, 2016.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 4, 2016

Stamp No. 2705520 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**Section I – Summary of Auditor’s Results**

**Financial Statements**

Opinion Unit

Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund – State & Federal Grants	Unmodified
Debt Service Fund	Unmodified
Capital Projects Funds – State & Federal Grants	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weakness identified?	Yes	X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes		None reported X
Noncompliance material to financial statements noted?	Yes		No X

**Federal awards**

Internal Control over major programs:

Material weakness identified?	Yes		No X
Significant deficiencies identified not considered to be material weaknesses?	Yes		None reported X

Type of auditor’s report issued on compliance for major programs:

	<b>Unmodified</b>
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:**

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grant
20.509	Formula Grants for Rural Areas
93.044	Special Programs for the Aging - Title III, Part B – Grants for Supportive Services and Senior Centers
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs \$ 300,000

Auditee qualified as low-risk auditee?	Yes	No X
--	-----	------

**Section II – Financial Statements Findings**

*This significant deficiency in internal controls is considered a material weakness (MW) and an instance of noncompliance (NC).*

<b>Finding Reference</b>	2015-001
<b>Requirement</b>	Operating deficit of general fund
<b>Statement of Condition</b>	The Municipality closed its fiscal year ended on June 30, 2015 with a fund balance deficiency in the general fund of \$1,750,525. The deficit decreased \$37,137 when compared to the prior fiscal year.
<b>Criteria</b>	<p>Article 8.004 (b) of the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the ensuing fiscal year. No amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The Regulation) states that the Municipality it must take special care in prepare the revenues estimates so these do not result in budget appropriations in excess of available resources.</p>
<b>Cause of Condition</b>	The Municipality does not amortize the corresponding amount to reduce the deficit.
<b>Effect of Condition</b>	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico. The continued occurrence of this situation could result in possible significant limitations on available funds and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
<b>Recommendation</b>	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next budget. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.
<b>Questioned Costs</b>	None

**Section II – Financial Statements Findings**

**Finding Reference**      2015-001 (Continued)

**Management Response  
and Corrective Action**

The Municipality's Management concurs with the finding. The Municipality will take adequate measurements in order to strengthen its procedures to assure to control the expenditures and reduce deficit.

Implementation Date: April 1, 2016

Responsible Person: Maritza Tolentino Torres  
Finance Director

**Section II – Financial Statements Findings**

*This significant deficiency in internal controls is considered a material weakness (MW) and an instance of noncompliance (NC).*

<b>Finding Reference</b>	<b>2015-002</b>
<b>Program</b>	<b>Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (MW)(NC)</b>
<b>Statement of Condition</b>	<p>Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trust that comply with the criteria set forth in the GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of Agency’s governmental activities has not been determined.</p> <p>In addition, Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.</p>
<b>Criteria</b>	<p>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 Agency report in its financial statements its proportionate share of the collective net pension liability, pension 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.</p>
<b>Cause of Condition</b>	<p>The Puerto Rico Employees Retirement System Administration (ERS) is the governmental agency that acts as administrator of the pension plan in which the employees of Municipality participate. The ERS has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of Municipality’s net pension liability as of June 30, 2015.</p>
<b>Effect of Condition</b>	<p>Municipality’s Government-Wide Financial Statements do not present fairly the financial position of the governmental activities, and the change in financial position of Municipality for the fiscal year ended June 30, 2015.</p>

**Section II – Financial Statements Findings**

**Finding Reference**            2015-001 (Continued)

**Recommendation**            We recommend Municipality maintains a constant communication with the pension plan’s administrator, the Commonwealth’s Employees Retirement System Administration, in order to obtain the necessary audited actuarial and financial information to comply with the requirements of the GASB Statement No. 68

**Questioned Cost**              None

**Management Response  
and Corrective Action**        Municipality is closely monitoring the actions of the Commonwealth’s Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard.

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Maritza Tolentino Torres  
Finance Director

### **Section III – Major Federal Award Program Findings and Questioned Costs**

During our audit, we did not detect significant deficiencies, material weaknesses and instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-02	14.218	<p><u>During our examination of ten (10) participant's files we found the following situations:</u></p> <p><u>a. The participant exceeded the time limit required by the program to finish the repairs. (8 cases) The deduction of the medical expenses was not documented, resulting in errors of the income calculation for eligibility. (9 cases) b. The income calculations made by the program did not agree with our calculations. (2 cases) c. The rehabilitation was still in process during our audit (October 2013). It's been 336 days, limit days is 120. (1 case) d. In two (1) cases, funds were used to construct a new housing unit. The CDBG Action Plan in its Housing Rehabilitation Program states that this assistance will be used to rebuild the substandard housing unit into a sound, safe and sanitary dwelling bringing up the quality of life into the family dwelling. No evidence of governmental agencies approval of structure construction.</u></p> <p>Partially corrective action was taken. See management letter.</p>
12-02	14.218 & 14.253	<p><u>During our examination of twelve (12) participant's files we found the following situations: a) The participant exceeded the time limit required by the program to finish the repairs (8 cases). b) The deduction of the medical expenses was not documented, resulting in errors of the income calculation for eligibility (8 cases). c) The income calculations made by the program did not agree with our calculations (3 cases). d) The rehabilitation was still in process during our audit (February and March 2013, date of the last inspections) (4 cases). e) In three (3) cases, funds were used to construct a new housing unit out of the original footprint of the dwelling. The CDBG Action Plan in its Housing Rehabilitation Program states that this assistance will be used to rebuild the substandard housing unit into a sound, safe and sanitary dwelling bringing up the quality of life into the family dwelling. No evidence of Governmental Agencies approval of structure construction and electrical permits were found. f) In one (1) case the housing unit was not properly evaluated for the possible rehabilitation, resulting in the misusing of construction materials donated by the CDBG Program.</u></p> <p>Partially corrective action was taken. See management letter.</p>
12-03	14.871	<p><u>We performed an eligibility test and examined a sample of fifteen (15) participant files. The following summarize the deficiencies found: a) In one (1) participant's file, a reexamination was not performed at the time income was reported by the participant. b) In three (3) cases, the Family Report (form HUD 50058) presents the following errors in HAP calculations: In two (2) cases the participants' income calculation were incorrect, In one (1) case the payment standard and utility allowance was incorrect. c) In one (1) case, the participant's file did not include evidence of the birth certificate of two (2) members of the family, neither the photo of family composition. d) In six (6) cases the value of assets verification was not included in file. e) In five (5) cases the Enterprise Income Verification (EIV) corresponding to reexaminations and re-certifications of family composition and income, were not in file. In one (1) case the</u></p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
		<p><u>EIV was not signed either by the PHA or the participant. f) In one (1) case the documents related with fiscal year 11-12, were not available for our review. g) In one (1) case the medical expenses allowance was calculated incorrectly, causing errors in the HAP calculation.</u></p> <p>Full corrective action has been taken.</p>