

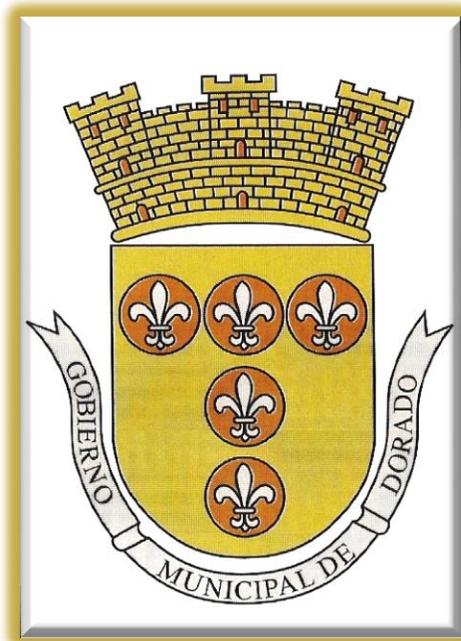
**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

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

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

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

Year Ended June 30, 2015



Municipality of Dorado, P.O. Box 588, Dorado, Puerto Rico 00646
Hon. Carlos A. López Rivera

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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
Autonomous Municipality of Dorado
Dorado, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado**, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Unmodified
General Fund	Unmodified
Special Revenue Fund-Head Start Program	Unmodified
Capital Projects Fund	Unmodified
Debt Service Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Autonomous Municipality of Dorado**, 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 the business-type activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Dorado**, Puerto Rico, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 and Budgetary Comparison information on page 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 Dorado's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages 68 and 69 is 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 shown in pages 71 and 72 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2016

Stamp No. 2728478 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



MANAGEMENT’S DISCUSSION AND ANALYSIS

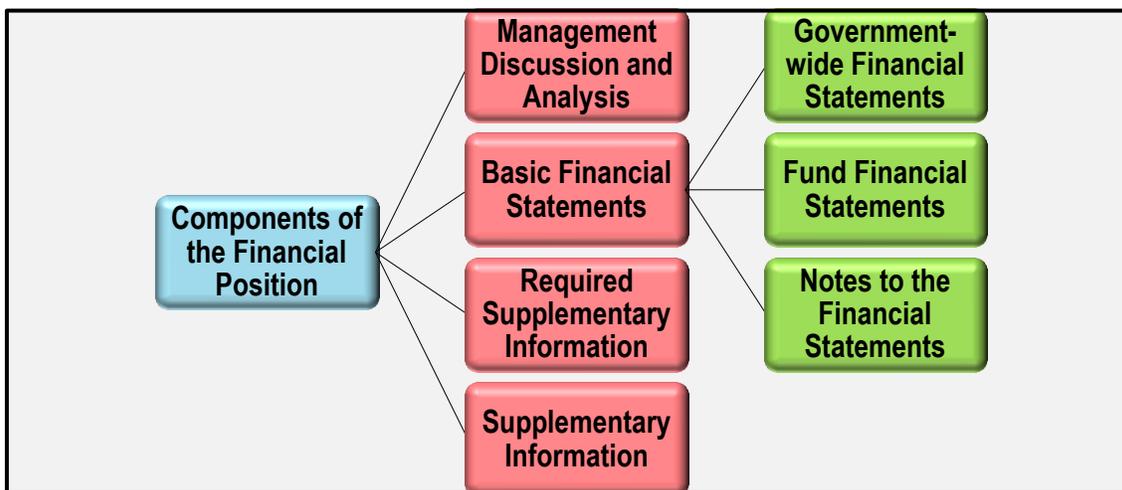
The discussion and analysis of the Municipality of Dorado’s financial performance provides an overall review of the Municipality’s financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the Municipality’s financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2015 by \$92,183,787 (net position), an increase of 0.5% in comparison with 2014, as restated. Of this amount, the Municipality presented an unrestricted net position (deficit) of \$5,302,276.
- Revenues increased 2% and expenses increased 8% when compared with fiscal year 2014, as restated. Net position increased \$510,070 in 2015.
- A negative net change in the fund balances of the Municipality’s governmental funds of (\$7,793,186) in the fiscal year 2015 resulted in reported ending fund balances of \$24,731,215.
- For the fiscal year 2015, the General Fund reported a deficiency of revenues and other financing sources over expenditures and other financing uses of \$898,961. The unassigned fund balance amounts to \$3,000,673 for a decrease of 23% as compared to prior year 2014.
- The net investment in capital assets of June 30, 2015 was \$85,869,144.
- Long-term debt (total primary government) decreased to \$78,540,859 or approximately 3% with respect to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$3,191,694.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality’s financial report comprises four components: (1) management’s discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, 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. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities*, presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- **Fund Financial Statements**

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass

the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion 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. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

The following table presents a summary of the Statements of Net Position as of June 30, 2015 and 2014, as restated:

TABLE 1

Summary Statement of Net Position		
As of June 30,		
	Governmental Activities	
	2015	2014, as restated
Assets		
Current and other assets	\$ 40,317,657	\$ 45,320,134
Capital assets	144,320,742	141,981,616
Total assets	\$ 184,638,399	\$ 187,301,750
Liabilities		
Current and other liabilities	13,913,753	14,440,353
Long-term liabilities	78,540,859	81,187,680
Total liabilities	92,454,612	95,628,033
Net Position		
Net investment in capital assets	85,869,144	77,455,160
Restricted	11,616,919	25,280,997
Unrestricted (deficit)	(5,302,276)	(11,062,440)
Total net position	\$ 92,183,787	\$ 91,673,717

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2015, assets exceeded its liabilities by \$92,183,787. Of this amount, \$(5,302,276) represents unrestricted net position (deficit). This deficit primarily arises from long-term obligations such as compensated absences, debts to CRIM, landfill, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported an increase of 0.5% with respect to the fiscal period 2014, as restated.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt

related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2015 and 2014, as restated:

TABLE 2

**Summary of Changes in Net Position
As of June 30,**

	Governmental Activities	
	2015	2014, as restated
Program revenues:		
Fees, fines and charges for services	\$ 4,790,430	\$ 341,662
Operating grants and contributions	7,446,801	7,068,103
Capital grants and contributions	122,042	1,619,145
General revenues:		
Property taxes	18,129,445	17,564,630
Municipal license taxes	4,160,960	4,571,585
Sales and use taxes	3,889,026	3,934,427
Grants and contributions not restricted to specific programs	2,010,176	2,826,865
Other local taxes	-	1,456,392
Interest	297,150	557,233
Miscellaneous	361,483	270,566
Total revenues	41,207,513	40,210,608
Expenses:		
General government	15,571,021	14,700,853
Public safety	1,810,312	1,785,272
Public works	9,732,266	8,042,619
Health, welfare and community development	7,920,873	8,733,328
Culture and recreation	1,959,996	1,303,066
Economic development	96,613	154,529
Interest on long-term debt	3,606,362	3,044,898
Total expenses	40,697,443	37,764,565
Change in net position	510,070	2,446,043
Net position-beginning of year, as restated	91,673,717	89,227,674
Net position-end of year	\$ 92,183,787	\$ 91,673,717

The three major sources of revenues of the Municipality in fiscal year 2015 are: property taxes with 43% of total revenues, operating grants and contributions with 18% and municipal license taxes with 10%. Revenues increased 2% due mainly to an increase of 3% and 36% in property taxes and program revenues, respectively. The following chart illustrates the revenue comparison between 2015 and 2014:

Figure 1

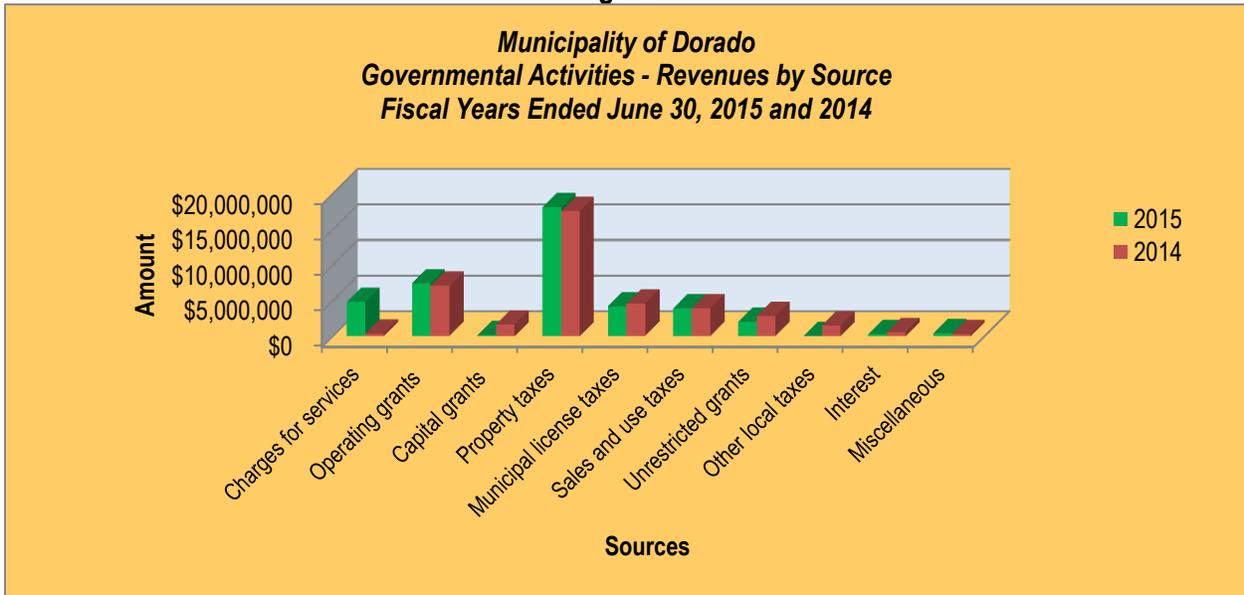
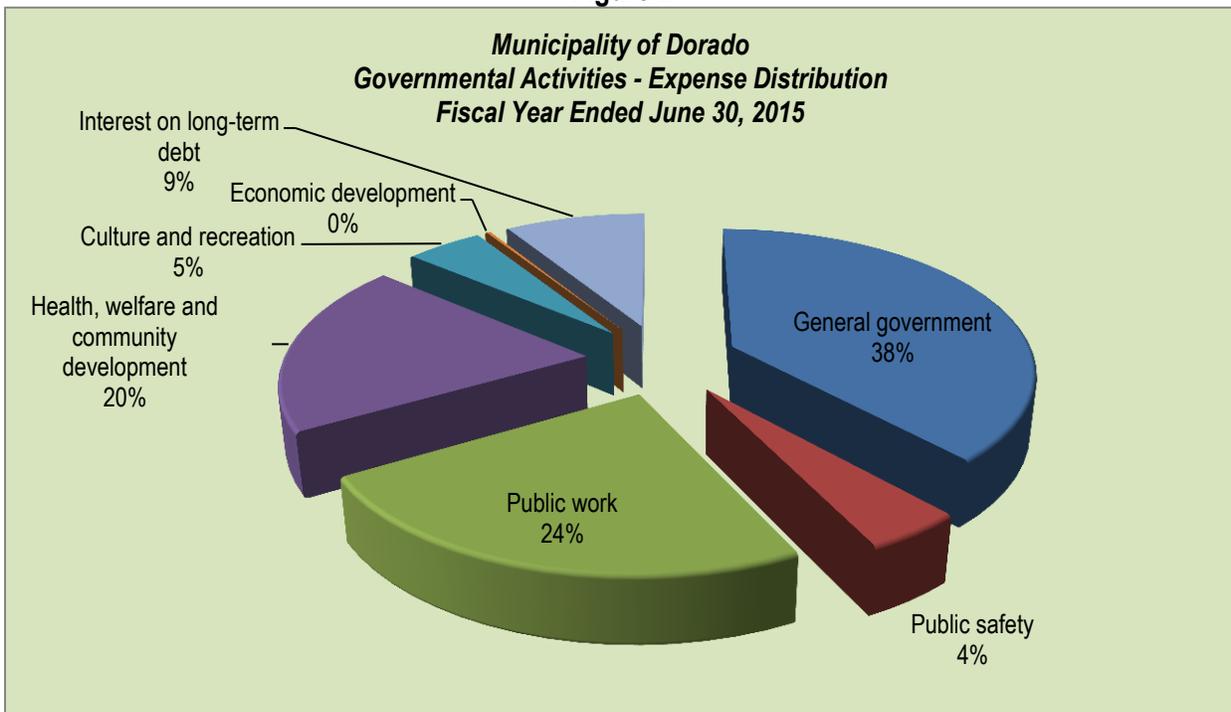


Figure 2



The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses in fiscal year 2015. As disclosed, the largest governmental activities expenses are general government with 38% and public works and sanitation with 24%. Total expenses increased 8% when compared with fiscal year 2014.

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. The following table discloses the 2015 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

Expenses Net of Program Revenues - Governmental Activities	
Fiscal Year ended June 30, 2015	
Net expenses	2015
General government	\$ (10,765,043)
Public safety	(1,741,467)
Public works	(9,620,366)
Health and welfare	(836,826)
Culture and recreation	(1,959,996)
Economic development	183,833
Interest on long term debt	(3,596,220)
Total expenses, net of program revenues	(28,336,085)
General revenues	
Taxes	26,179,431
Grants and contributions not restricted to specific programs	2,010,176
Interest and other	291,950
Miscellaneous	361,483
Transfer	5,200
Total general revenues	28,848,240
Change in net position	\$ 512,155

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2015, the governmental funds reported ending fund balances of \$24,731,215, a net decrease of \$7,793,186 or 23% compared to prior year, as restated. Of the total fund balances, \$2,961,828 or 11% constitutes unassigned fund balance. The remaining fund balance is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 11% of total ending fund balances. Of the total fund balance, 0.1% is non spendable due to advances to other funds. The remaining unassigned fund balance of \$2,961,828 represents 99% of the total fund balance of the general fund. Unassigned fund balance decreased 23% with respect to the prior year.

During the fiscal year, the fund balances of the general fund decreased by \$898,961. The main sources of revenues of the general fund in fiscal year 2015 are: taxes (property taxes, sales and use taxes and municipal license taxes) with 74%, and intergovernmental subsidies from the Commonwealth Government and licenses, permits and other taxes, with 13% and 7%, respectively. Revenues decreased 2% in comparison to 2014 due to an decrease in taxes of 3%. The largest expenditures of the general fund are general government with 61% and public works and sanitation with 28%. Expenditures increased 10%.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund original budget for the fiscal year 2014-2015 presented a 3% increase with respect to the prior year budget. Actual revenues exceeded revised budgeted revenues by \$1,816,196 (net). Also, the Municipality reported a positive variance of \$1,375,498 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$3,191,694.

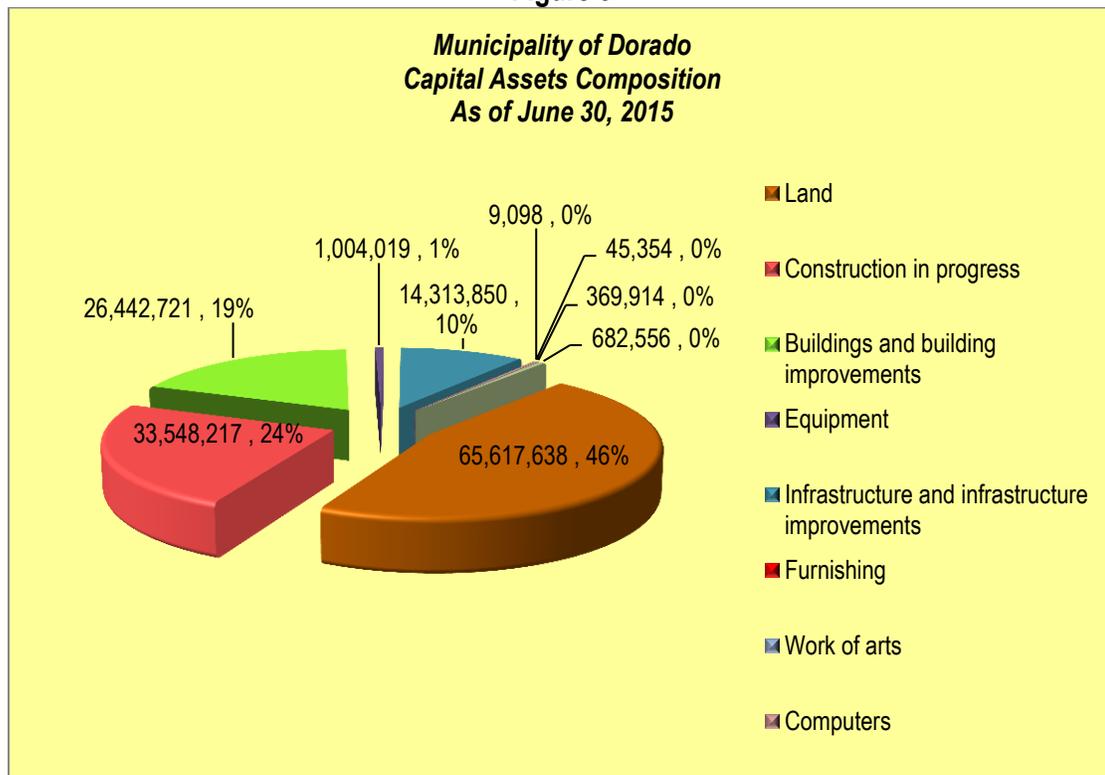
CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$144,320,742 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. The following graphic discloses the capital assets balances composition as of June 30, 2015:

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Figure 3



Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2015 and 2014:

**TABLE 4
Outstanding Long-term Debt
Fiscal years ended June 30, 2015 and 2014**

	Governmental Activities	
	2015	2014
General and special obligation bonds and notes	\$ 66,382,000	\$ 68,333,000
General obligation bond anticipation notes	6,331,000	7,132,000
Compensated absences	2,925,074	3,296,669
Claims and judgments	32,975	377,975
Landfill obligation	1,737,383	1,658,783
PR Aqueduct and Sewer Authority payment plan	352,036	-
Notes payable to CRIM – Law 42	208,774	215,253
Christmas bonus	397,617	292,255
Total	\$ 78,366,859	\$ 81,305,935

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

At year-end, the Municipality had outstanding \$72,713,000 in general and special bonds and notes, a decrease with respect to the prior year of \$2,752,000, mainly due to the payment of bonds and notes in the total amount of \$2,752,000. The recognition of PR Aqueduct and Sewer Authority payment plan and the accumulation of Christmas bonus debt increased long term liabilities by \$457,398.

More detailed information about the Municipality's long-term liabilities is presented in Note 11 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2015-2016 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2015 stands at 8.3%, and the Commonwealth rate stands at 12.6%.

For the fiscal year 2015-2016, the Municipality applied a conservative approach in the development of budget estimates. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

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 at PO Box 588, Dorado, Puerto Rico 00646-0588, Telephone (787) 796-1230.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,427,109	\$ 99,930	\$ 16,527,039
Cash with fiscal agent	21,715,904	100,936	21,816,840
Accounts receivable:			
Property taxes	128,473	-	128,473
Intergovernmental	1,767,817	-	1,767,817
Federal grants	60,673	-	60,673
Others	16,815	-	16,815
Capital assets			
Land, improvements, and construction in progress	99,165,855	388,790	99,554,645
Other capital assets, net of depreciation	42,867,512	1,898,585	44,766,097
Total capital assets	<u>142,033,367</u>	<u>2,287,375</u>	<u>144,320,742</u>
Total assets	<u>182,150,158</u>	<u>2,488,241</u>	<u>184,638,399</u>
Liabilities			
Accounts payable and accrued liabilities	7,093,884	-	7,093,884
Due to other governmental entities	225,143	-	225,143
Due to governmental fund	-	12,601	12,601
Unearned revenues:			
Municipal license tax	3,890,384	-	3,890,384
Federal grant revenues	1,066,996	-	1,066,996
Interest payable	1,619,525	5,220	1,624,745
Noncurrent liabilities:			
Due within one year	4,247,956	174,000	4,421,956
Due in more than one year	74,118,903	-	74,118,903
Total liabilities	<u>92,262,791</u>	<u>191,821</u>	<u>92,454,612</u>
Net Position			
Net investment in capital assets	83,760,989	2,108,155	85,869,144
Restricted for:			
Capital projects	478,748	-	478,748
Debt service	10,138,073	-	10,138,073
Other purposes	1,000,098	-	1,000,098
Unrestricted (deficit)	<u>(5,490,541)</u>	<u>188,265</u>	<u>(5,302,276)</u>
Total net position	<u>\$ 89,887,367</u>	<u>\$ 2,296,420</u>	<u>\$ 92,183,787</u>

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
General government	\$ 15,464,860	\$ 4,617,509	\$ 82,308	\$ -	\$ (10,765,043)	\$ -	\$ (10,765,043)
Public safety	1,810,312	68,845	-	-	(1,741,467)	-	(1,741,467)
Public works	9,732,266	-	-	111,900	(9,620,366)	-	(9,620,366)
Health, welfare and community development	7,920,873	-	7,084,047	-	(836,826)	-	(836,826)
Culture and recreation	1,959,996	-	-	-	(1,959,996)	-	(1,959,996)
Economic development	96,613	-	280,446	-	183,833	-	183,833
Interest on long-term debt	3,606,362	-	-	10,142	(3,596,220)	-	(3,596,220)
Total governmental activities	\$ 40,591,282	\$ 4,686,354	\$ 7,446,801	\$ 122,042	(28,336,085)	-	(28,336,085)
Business type activities:							
General government	106,161	104,076	-	-	-	(2,085)	(2,085)
Total business type activities	106,161	104,076	-	-	-	(2,085)	(2,085)
Total primary government	40,697,443	4,790,430	7,446,801	122,042	(28,336,085)	(2,085)	(28,338,170)
General revenues:							
Property taxes					18,129,445	-	18,129,445
Municipal license tax					4,160,960	-	4,160,960
Municipal sales and use tax					3,889,026	-	3,889,026
Grants and contributions not restricted to specific programs					2,010,176	-	2,010,176
Interest					291,950	5,200	297,150
Miscellaneous					361,483	-	361,483
Transfers					5,200	(5,200)	-
Total general revenues and transfers					28,848,240	-	28,848,240
Change in net position					512,155	(2,085)	510,070
Net position - beginning, as restated					89,375,212	2,298,505	91,673,717
Net position - ending					\$ 89,887,367	\$ 2,296,420	\$ 92,183,787

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

Balance Sheet-Governmental Funds
June 30, 2015

	General Fund	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 5,259,679	\$ -	\$ -	\$ -	\$ -	\$ 5,259,679
Accounts receivable:						
Property taxes	128,473	-	-	-	-	128,473
Intergovernmental	92,458	-	667,801	683,720	323,838	1,767,817
Federal grants	-	25,483	-	-	35,190	60,673
Others	-	-	-	-	4,214	4,214
Due from:						
Due from other funds	4,720,946	-	-	-	-	4,720,946
Advances to other funds	38,845	-	-	-	-	38,845
Cash with fiscal agent	-	-	9,827,258	11,073,879	814,767	21,715,904
Cash-restricted	-	712,376	4,867,845	-	5,587,208	11,167,429
Total assets	\$ 10,240,401	\$ 737,859	\$ 15,362,904	\$ 11,757,599	\$ 6,765,217	\$ 44,863,980
Liabilities, deferred inflows of resources and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,903,270	\$ 63,608	\$ 1,073,384	\$ -	\$ 243,178	\$ 4,283,440
Matured bonds and notes payables	-	-	-	3,015,000	-	3,015,000
Matured interest payable	-	-	-	1,619,525	-	1,619,525
Due to:						
Due to Commonwealth government	225,143	-	-	-	-	225,143
Due to other funds	-	14,780	3,694,797	-	998,767	4,708,344
Advances from other funds	-	-	-	-	38,845	38,845
Unearned revenues:						
Municipal license tax	3,890,384	-	-	-	-	3,890,384
Federal grant revenues	-	569,068	-	-	497,928	1,066,996
Total liabilities	7,018,797	647,456	4,768,181	4,634,525	1,778,718	18,847,677
Deferred Inflows of Resources						
Unavailable revenues -						
Commonwealth government	220,931	-	667,801	-	305,953	1,194,685
Federal government	-	90,403	-	-	-	90,403
Total Deferred Inflows of Resources	220,931	90,403	667,801	-	305,953	1,285,088
Fund balances:						
Nonspendable	38,845	-	-	-	-	38,845
Restricted	-	-	9,926,922	7,123,074	4,680,546	21,730,542
Unassigned	2,961,828	-	-	-	-	2,961,828
Total fund balances	3,000,673	-	9,926,922	7,123,074	4,680,546	24,731,215
Total liabilities, deferred inflows of resources and fund balances	\$ 10,240,401	\$ 737,859	\$ 15,362,904	\$ 11,757,599	\$ 6,765,217	\$ 44,863,980

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Special Revenue Fund Head Start	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 10,641,550	\$ -	\$ -	\$ 7,487,895	\$ -	\$ 18,129,445
Municipal license taxes	4,160,960	-	-	-	-	4,160,960
Municipal sales and use tax	3,014,164	-	-	874,862	-	3,889,026
Licenses, permits and other local taxes	1,727,428	-	-	-	-	1,727,428
Charges for services	85,451	-	-	-	68,845	154,296
Intergovernmental	3,303,288	-	111,900	-	449,778	3,864,966
Fines and forfeitures	46,133	-	-	-	-	46,133
Rent of property	312,444	-	-	-	-	312,444
Interest	291,950	-	10,142	-	-	302,092
Federal grants	-	4,217,820	-	-	2,779,203	6,997,023
Miscellaneous	175,016	-	-	-	186,467	361,483
Total revenues	23,758,384	4,217,820	122,042	8,362,757	3,484,293	39,945,296
Expenditures						
Current:						
General government	15,163,713	-	1,112	-	5,907	15,170,732
Public safety	1,737,753	-	-	-	67,491	1,805,244
Public works	7,039,579	-	8,928,974	-	506,881	16,475,434
Health and welfare	-	4,456,855	-	-	2,345,004	6,801,859
Culture and recreation	782,388	-	80,876	-	190,691	1,053,955
Economic development	-	-	-	-	205,762	205,762
Community development	-	-	1,209	-	239,570	240,779
Urban development	-	-	-	-	92,825	92,825
Debt service:						
Principal	-	-	-	3,055,000	306,000	3,361,000
Interest	-	-	-	3,242,541	203,151	3,445,692
Total expenditures	24,723,433	4,456,855	9,012,171	6,297,541	4,163,282	48,653,282
Excess (deficiency) of revenues over (under) expenditures	(965,049)	(239,035)	(8,890,129)	2,065,216	(678,989)	(8,707,986)
Other financing sources (uses)						
Transfers in	307,858	126,013	656,591	69,776	114,170	1,274,408
Transfers out	(241,770)	-	(279,281)	(656,591)	(101,966)	(1,279,608)
Long-term debt issued	-	-	920,000	-	-	920,000
Total other financing sources (uses)	66,088	126,013	1,297,310	(586,815)	12,204	914,800
Net change in fund balances	(898,961)	(113,022)	(7,592,819)	1,478,401	(666,785)	(7,793,186)
Fund balances, beginning as restated	3,899,634	113,022	17,519,741	5,644,673	5,347,331	32,524,401
Fund balances, ending	\$ 3,000,673	\$ -	\$ 9,926,922	\$ 7,123,074	\$ 4,680,546	\$ 24,731,215

Total Fund Balances - Governmental Funds \$ 24,731,215

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	\$ 99,165,855	
Depreciable capital assets	72,222,954	
Accumulated depreciation	<u>(29,355,442)</u>	
Total Capital Assets		142,033,367

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

Treasury Department-Property taxes	128,473	
Treasury Department-Christmas bonus	92,458	
Department of Labor-Law 52	180,000	
Treasury Department-Joint Resolution No. 412	118,839	
Treasury Department-Joint Resolution No. 4272	7,114	
Treasury Department-Joint Resolution No. 123	91,607	
Puerto Rico Department of Transportation	308,969	
Puerto Rico Government Development Bank	267,225	
Department of Family-Head Start program	<u>90,403</u>	
		1,285,088

Accounts payable related to Construction in Progress are not due and payable in the current period and, therefore, are not reported in the funds.

(2,810,444)

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:

3,015,000

General obligation bonds and notes	(72,713,000)	
Property Taxes Debt-Law. No 42	(208,774)	
P.R. Aqueduct and Sewer Authority-Payment Plan	(352,036)	
Christmas bonus	(397,617)	
Claims and judgments	(32,975)	
Compensated Absences	(2,925,074)	
Landfill Obligation	<u>(1,737,383)</u>	
Total Long-Term Liabilities		<u>(78,366,859)</u>

Total Net Position of Governmental Activities

\$ 89,887,367

**COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF DORADO**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2015**

Net Change in Fund Balances - Total Governmental Funds **\$ (7,793,186)**

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	\$ 14,689,155	
Less: current-year depreciation	<u>(2,361,854)</u>	12,327,301

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

Treasury Department-Property taxes	128,473	
Treasury Department-Christmas bonus	92,458	
Department of Labor-Law 52	180,000	
Treasury Department-Joint Resolution No. 412	118,839	
Treasury Department-Joint Resolution No. 4272	7,114	
Treasury Department-Joint Resolution No. 123	91,607	
Puerto Rico Department of Transportation	308,969	
Puerto Rico Government Development Bank	267,225	
Department of Family-Head Start program	<u>90,403</u>	1,285,088

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

Treasury Department-Property taxes		(132,147)
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Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the		(7,521,656)
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Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		(300,000)
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the Statement of Net Position:

General obligation bonds and notes	3,672,000	
Other long-term liabilities	<u>1,035,330</u>	4,707,330

and, therefore, are not reported as expenditures:

General obligation bond issuance	(920,000)	
Christmas bonus	(397,617)	
Claims and judgments	(20,000)	
P.R. Aqueduct and Sewer Authority-Payment Plan	(352,036)	
Landfill closure and Post-closure costs	(78,600)	
Accrued interest-net change	<u>(155,472)</u>	(1,923,725)

Position but not reported as in the Governmental Funds because they do not require the use of current		<u>(136,850)</u>
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Change in Net Position of Governmental Activities **\$ 512,155**

	Commercial Pavilion Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 99,930
Cash with fiscal agent	100,936
Total current assets	<u>200,866</u>
Noncurrent assets:	
Capital assets:	
Property, and equipment:	
Land	388,790
Building and building improvements	3,582,858
Accumulated depreciation	(1,684,273)
Total noncurrent assets	<u>2,287,375</u>
Total assets	<u>2,488,241</u>
Liabilities	
Current liabilities:	
Interest payable	5,220
Due to other fund	12,601
Total current liabilities	<u>17,821</u>
Noncurrent liabilities:	
Due within one year	174,000
Total noncurrent liabilities	<u>174,000</u>
Total liabilities	<u>191,821</u>
Net Position	
Net investment in capital assets	2,108,155
Unrestricted	188,265
Total Net Position	<u><u>\$ 2,296,420</u></u>

	Commercial Pavilion Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	\$ 104,076
Loan from general fund	12,601
Transfer from governmental funds	5,200
Payment to suppliers	<u>(16,589)</u>
Net cash provided by operating activities	<u>105,288</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid	<u>(8,375)</u>
Net cash used in capital and related financing activities	<u>(8,375)</u>
Net decrease in cash and cash with fiscal agent, restricted	96,913
Cash and cash with fiscal agent at beginning of period, restricted	<u>103,953</u>
Cash and cash with fiscal agent at end of period, restricted	<u><u>\$ 200,866</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	<u>\$ (2,085)</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation expense	<u>89,571</u>
Total adjustments	<u>89,571</u>
Net cash provided by operating activities	<u><u>\$ 87,486</u></u>
NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES:	NONE

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Autonomous Municipality of Dorado (the Municipality) was founded in the year 1842. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a fourteen-member Municipal Legislature who are elected for a four-year term.

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

The accounting policies and financial reporting practices of the Municipality conform to accounting principles generally accepted in the United States of America ("USGAAP") as applicable to governmental units.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments." This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. The Statement was adopted as of July 1, 2002. In addition to this Statement, GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year delay for implementation to fiscal year 2007. The Municipality implemented the capitalization of infrastructure since July 1, 2006.

In March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2012, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

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

The provisions of the GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of Statements No. 14 and 34, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of components units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In the previous year, the Municipality adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities.

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 Dorado (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 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 exists between the primary government and the entity or
 - The primary government can impose its will on the entity.

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

A. Financial reporting entity (continued)

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.
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 exists between the primary government and the entity or
 - Management of the primary government has operational responsibility for the component unit

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

A. Financial reporting entity (continued)

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 do 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

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.

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

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

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.

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

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

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

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- This is the general operating fund of the Municipality. It is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund- Head Start- This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5 years-old) and their families that are under the poverty line or are eligible for public assistance.

Capital Projects Fund – State and Local Grants – is a major governmental fund used to account for and report financial resources received from the Commonwealth Government 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.

Debt Service Fund – this fund is 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.

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*).

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

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

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

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.

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.

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

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

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.

Notes to financial statements

The notes to financial statements provide information that is essential to an 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 Funds – 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 Funds – 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

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

C. Financial reporting presentation (continued)

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.

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.

Proprietary Funds

Enterprise Fund – The enterprise fund statements consist of Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. This fund accounts for exchange like transactions, like private enterprises and its operations are intended to be self-supporting through charges to users. These statements are prepared using the economic resources measurement focus, and full accrual basis. The Municipality has only one enterprise fund, the Commercial Pavilion Rafael Hernández Colón, whose main operating activity is rental of commercial spaces.

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.

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

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, based upon past collection experience and current economic conditions. Intergovernmental receivable in the general fund represents the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final settlement; Intergovernmental receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the capital projects fund and in other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs or state funded programs.

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. Inventory

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.

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

I. Capital assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital asset as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or 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

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

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

J. Deferred outflows/inflows of resources – (Continued)

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 include to 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.

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.

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.

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

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.

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") establishes 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 "Operating transfer-in" by the recipient fund and as "Operating 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.

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

T. Risk financing (continued)

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 suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2015 amounted to \$284,966.

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

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees.

Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

U. Use of Estimates

The preparation of 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 financial statements, and the reported amounts of revenues and expenses during the reported 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

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

V. Future adoption of accounting pronouncements (continued)

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).
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, if any, has not yet been determined.

W. Subsequent events

Subsequent events have been evaluated through March 7, 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.

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and 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 it’s

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 interest-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.

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 – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$16,427,109 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amount to \$21,715,904 as of June 30, 2015.

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 24 of each year.

Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2014, 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 taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as unearned revenues.

The unearned revenues of \$3,890,384 in the general fund relates to municipal license tax collected in fiscal year 2014-15 that will be earned in fiscal year 2015-16.

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

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

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund – General fund:</u>		
PR Department of Treasury-Christmas bonus reimbursement	\$ 92,458	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes final liquidation	128,473	
<u>Major fund – Special revenue fund-Head Start program:</u>		
Early Head Start program		25,483
<u>Major fund – Capital project fund:</u>		
PR Department of Transportation-Cooperative agreement	308,969	
PR Government Development Bank	267,225	
PR Treasury Department-Joint Resolution No.123	91,607	
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	683,720	
<u>Other Governmental Funds:</u>		
PR Department of Labor-Law 52	180,000	
PR Treasury Department-Joint Resolution No.412	118,839	
PR Treasury Department-Joint Resolution No.4272	7,114	
PR Treasury Department-Legislative grants	17,885	
Community Services Block Grant		7,190
Hazard Mitigation Grant		28,000
	<u>\$ 1,896,290</u>	<u>\$ 60,673</u>

4. DUE FROM (TO) GOVERNMENTAL ENTITIES (Continued)

B. Amounts due to other governmental entities as of June 30, 2015 are as follows:

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 46,478
Puerto Rico Department of Labor	365
Retirement System Administration	152,406
Commonwealth of Puerto Rico Employee Association	23,495
General Services Administration	2,399
Total	\$ 225,143

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, and interfund transfers during the fiscal year ended at June 30, 2015, are summarized as follows:

a. Due from/to other fund and Advance to/from:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund- Head Start program	Payroll and related accruals paid and not reimbursed	\$ 14,780
General Fund	Capital Projects Fund-State & Local Funds	Reimbursable expenditures	3,694,797
General Fund	Other governmental funds	Reimbursable expenditures	998,768

5. INTERFUND TRANSACTIONS (CONTINUED)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds-Federal Program	Advances	38,845
General Fund	Enterprise fund	Reimbursable expenditures	<u>12,601</u>
Total			<u>\$ 4,759,791</u>

b. Transfer in/out to other fund

Following is a summary of interfund transfers for the year:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>
Debt Service Fund	Capital Project Fund	\$ 656,591
General Fund	Debt Service Fund	69,776
Other governmental funds	Special Revenue Fund – Heat Start Program	72,628
General Fund	Special Revenue Fund – Heat Start Program	53,385
General Fund	Other governmental funds	113,409
Capital Project Fund	General Fund	279,281
General Fund	Enterprise Fund	5,200
Other governmental funds	General Fund	<u>29,338</u>
Total		<u>\$1,279,608</u>

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 Head Start Fund</u>	<u>Capital Projects Fund – State & Local Grants</u>	<u>Other Governmental Fund</u>	<u>Total</u>
Accounts payable	\$ 2,536,581	\$ 63,608	\$ 1,073,384	\$ 243,178	\$ 3,916,751
Accrued liabilities	<u>366,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>366,689</u>
Total	<u>\$ 2,903,270</u>	<u>\$ 63,608</u>	<u>\$ 1,073,384</u>	<u>\$ 243,178</u>	<u>4,283,440</u>

7. 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>Commonwealth Government</u>	<u>Federal Government</u>
Major fund - General fund:		
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 92,458	\$ -
Municipal Revenue Collection Center (CRIM) – property taxes final liquidation	128,473	
Major fund – Special revenue fund-Head Start program:		
Head Start Program		90,403
Major fund – Capital project fund:		
PR Treasury Department-Joint Resolution No. 123	91,607	
PR Department of Transportation-Cooperative Agreement	308,969	
PR Government Development Bank	267,225	
Other governmental funds:		
PR Department of Labor-Law 52	180,000	
PR Treasury Department-Joint Resolution No. 412	118,839	
PR Treasury Department-Joint Resolution No. 4272	7,114	
	<u>\$ 1,194,685</u>	<u>\$ 90,403</u>

8. UNEARNED REVENUES

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

	<u>Amount</u>
<u>Major fund – General fund:</u>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 3,890,384
<u>Special Revenue Fund – Head Start:</u>	569,068
<u>Other Governmental Fund</u>	
Special Program for the aging – Title III	251,031
Federal Transit Administration Grants	66,034
Department of Housing and Urban Development Grants	115,805
Child and Adult Care Food Program	17,094
Others	<u>47,964</u>
Total	<u>\$ 4,957,380</u>

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9. FUND BALANCE

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

<u>Fund Balance (Deficit)</u>	<u>General Fund</u>	<u>Special Revenue Fund-Head Start</u>	<u>Capital Projects Fund-State & Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:						
Interfund loans receivable	\$ 38,845	\$ -	\$ -	\$ -	\$ -	\$ 38,845
Restricted for:						
Health and Welfare					884,557	884,557
Public Safety					115,541	115,541
Capital Projects			9,926,922		3,680,448	13,607,370
Debt Service				7,123,074		7,123,074
Unassigned	2,961,828					2,961,828
Total Fund Balance (Deficit)	<u>\$ 3,000,673</u>	<u>\$ -</u>	<u>\$ 9,926,922</u>	<u>\$ 7,123,074</u>	<u>\$ 4,680,546</u>	<u>\$ 24,731,215</u>

10. 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:

Governmental Activities:	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital asset, not being depreciated:				
Land	\$ 65,563,165	\$ 54,473	\$ -	\$ 65,617,638
Construction in progress	35,837,888	5,231,985	(7,521,656)	33,548,217
Total capital assets not being depreciated	101,401,053	5,286,458	(7,521,656)	99,165,855
Capital assets, being depreciated:				
Buildings	11,114,245	300,025	-	11,414,270
Buildings improvements	18,351,403	5,946,043	-	24,297,446
Infrastructure	13,275,407	1,626,798	-	14,902,205
Infrastructure improvements	5,884,229	770,304	-	6,654,533
Equipment	5,098,147	434,165	(109)	5,532,203
Furnishing	482,087	3,734	-	485,821
Work of Arts	595,425	-	-	595,425
Computers	582,995	37,170	(10,334)	609,831
Vehicles	7,761,773	284,458	(315,011)	7,731,220
Total capital assets being depreciated	63,145,711	9,402,697	(325,454)	72,222,954
Less accumulated depreciation for:				
Buildings	(5,923,759)	(283,507)	-	(6,207,266)
Buildings improvements	(2,455,682)	(606,047)	-	(3,061,729)
Infrastructure	(4,239,424)	(295,849)	-	(4,535,273)
Infrastructure improvements	(2,277,428)	(430,187)	-	(2,707,615)
Equipment	(4,194,347)	(333,946)	109	(4,528,184)
Furnishing	(471,279)	(5,444)	-	(476,723)
Computers	(523,658)	(36,747)	10,334	(550,071)
Work of Arts	(181,175)	(58,742)	-	(239,917)
Vehicles	(7,052,290)	(311,385)	315,011	(7,048,664)
Total accumulated depreciation	(27,319,042)	(2,361,854)	325,454	(29,355,442)
Total capital assets being depreciated net	35,826,669	7,040,843	-	42,867,512
Governmental activities capital assets, net	137,227,722	12,327,301	(7,521,656)	142,033,367

10. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:

Community Development	\$ 158,412
Culture And Recreation	414,129
Economic Development	96,613
Education	3,560
General Government	566,363
Health And Welfare	8,773
Public Safety	108,430
Public Work	<u>1,005,574</u>
Total depreciation expense-governmental activities	<u>\$ 2,361,854</u>

<u>Business – type activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30,2015</u>
Capital asset, not being depreciated:				
Land and construction in progress	\$ 388,790	\$ -	\$ -	\$ 388,790
Total capital assets not being depreciated	<u>388,790</u>	<u>-</u>	<u>-</u>	<u>388,790</u>
Capital assets, being depreciated:				
Building	3,537,458	-	-	3,537,458
Building improvements	45,400	-	-	45,400
Total capital assets being depreciated	<u>3,582,858</u>	<u>-</u>	<u>-</u>	<u>3,582,858</u>
Less accumulated depreciation for:				
Building and Building Improvements	(1,594,701)	(89,571)	-	(1,684,272)
Total accumulated depreciation	<u>(1,594,701)</u>	<u>(89,571)</u>	<u>-</u>	<u>(1,684,272)</u>
Total capital assets being depreciated, net	<u>1,988,157</u>	<u>(89,571)</u>	<u>-</u>	<u>1,898,586</u>
Business- type Activities capital assets, net	<u>\$2,376,947</u>	<u>(89,571)</u>	<u>\$ -</u>	<u>\$2,287,376</u>

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

<u>Business –type Activities</u>	
General government	\$ 89,571
Total depreciation expense-governmental activities	<u>\$ 89,571</u>

11. LONG-TERM LIABILITIES

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

Description	Beginning Balance, as Restated	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$68,333,000	\$ 920,000	\$ (2,871,000)	\$ 66,382,000	\$2,802,000
Notes payable	7,132,000	-	(801,000)	6,331,000	616,000
PR Aqueduct and Sewer Authority Payment plan	-	352,036	-	352,036	162,478
Property tax debt- Law-42	215,253	-	(6,479)	208,774	6,886
Compensated absences	3,296,669	-	(371,595)	2,925,074	230,000
Claims and judgments	377,975	20,000	(365,000)	32,975	32,975
Christmas bonus	292,255	397,617	(292,255)	397,617	397,617
Landfill obligation	1,658,783	78,600	-	1,737,383	-
Total	<u>\$81,305,935</u>	<u>\$ 1,768,253</u>	<u>\$(4,707,329)</u>	<u>\$78,366,859</u>	<u>\$4,247,956</u>

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

Description	Beginning Balance	Borrowings or Additions and Adjustment	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 174,000	\$ -	\$ -	\$ 174,000	\$ 174,000
Total	<u>\$ 174,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,000</u>	<u>\$ 174,000</u>

- 1. 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 and notes payable (excluding notes payable to the Land Authority), is paid with unrestricted funds.

11. LONG-TERM LIABILITIES (CONTINUED)

- 2. 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>
1997 Special obligation bond for infrastructure improvements with an original amount of \$290,000 due in installments of \$20,000 to \$25,000 through July 1, 2016	25,000
1997 Special obligation bond for infrastructure improvements with an original amount of \$110,000 due in installments of \$5,000 to \$10,000 through July 1, 2016	10,000
2000 General obligation bond for infrastructure improvements with an original amount of \$1,500,000 due in installments of \$70,000 to 145,000 through July 1, 2021	705,000
2001 General obligation bond for infrastructure improvements with an original amount of \$310,000 due in installments of \$10,000 to \$30,000 through July 1, 2026	210,000
2002 General obligation bond for infrastructure improvements with an original amount of \$2,850,000 due in installments of \$80,000 to \$250,000 through July 1, 2027	2,015,000
2004 General obligation bond for operational expenses with an original amount of \$550,000 due in installments of \$15,000 to \$40,000 through July 1, 2029	405,000
2004 General obligation bond for infrastructure improvements with an original amount of \$3,150,000 due in installments of \$135,000 to \$240,000 through July 1, 2024	1,805,000
2004 General obligation bond for infrastructure improvements with an original amount of \$115,000 due in installments of \$5,000 to \$10,000 through July 1, 2024	60,000
2004 General obligation bond for infrastructure improvements with an original amount of \$1,860,000 due in installments of \$80,000 to \$145,000 through July 1, 2024	1,065,000
2005 General obligation bond for infrastructure improvements with an original amount of \$945,000 due in installments of \$60,000 to \$85,000 through July 1, 2020	395,000
2005 General obligation bond for infrastructure improvements with an original amount of \$5,825,000 due in installments of \$360,000 to \$535,000 through July 1, 2020	2,430,000

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2015</u>
2006 Special obligation bond for property acquisition with an original amount of \$532,000 due in installments of \$13,000 to \$42,000 through July 1, 2030	410,000
2007 Special obligation bond for Infrastructure improvement with an original amount of \$1,645,000 due in installments of \$85,000 to \$175,000 through July 1, 2022	985,000
2007 Special obligation bond for Infrastructure improvement with an original amount of \$930,000 due in installments of \$35,000 to \$85,000 through July 1, 2029	785,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,650,000 due in installments of \$65,000 to \$305,000 through July 1, 2033	3,185,000
2008 General obligation bond for infrastructure improvements with an original amount of \$220,000 due in installments of \$20,000 to \$30,000 through July 1, 2018	85,000
2008 General obligation bond for infrastructure improvements with an original amount of \$370,000 due in installments of \$5,000 to \$35,000 through July 1, 2033	325,000
2008 General obligation bond for infrastructure improvements with an original amount of \$3,265,000 due in installments of \$60,000 to \$270,000 through July 1, 2033	2,840,000
2008 Special obligation bond for infrastructure improvements with an original amount of \$3,720,000 due in installments of \$75,000 to \$310,000 through July 1, 2032	3,285,000
2009 General obligation bond for infrastructure improvements with an original amount of \$3,395,000 due in installments of \$90,000 to \$310,000 through July 1, 2029	2,825,000
2010 General obligation bond for infrastructure improvements with an original amount of \$1,820,000 due in installments of \$40,000 to \$155,000 through July 1, 2032	1,610,000
2010 General obligation bond for infrastructure improvements with an original amount of \$1,095,000 due in installments of \$20,000 to \$90,000 through July 1, 2035	995,000
2010 Special obligation bond for infrastructure improvements with an original amount of \$537,000 due in installments of \$30,000 to \$62,000 through July 1, 2022	382,000
2012 General obligation bond for infrastructure improvements with an original amount of \$1,900,000 due in installments of \$30,000 to \$160,000 through July 1, 2036	1,775,000
2012 General obligation bond for infrastructure improvements with an original amount of \$3,305,000 due in installments of \$60,000 to \$290,000 through July 1, 2033	3,020,000

11. LONG-TERM LIABILITIES (CONTINUED)

<u>Description</u>	<u>Balance at June 30, 2015</u>
2012 General obligation bond for infrastructure improvements with an original amount of \$805,000 due in installments of \$30,000 to \$85,000 through July 1, 2025	675,000
2013 General obligation bond for infrastructure improvements with an original amount of \$2,315,000 due in installments of \$55,000 to \$215,000 through July 1, 2031	2,145,000
2013 General obligation bond for operational expenditures with an original amount of \$10,240,000 due in installments of \$150,000 to \$855,000 through July 1, 2036	9,755,000
2012 General obligation bond for infrastructure improvements with an original amount of \$2,185,000 due in installments of \$45,000 to \$200,000 through July 1, 2032	2,085,000
2013 General obligation bond for infrastructure improvements with an original amount of \$1,145,000 due in installments of \$40,000 to \$120,000 through July 1, 2027	1,060,000
2013 General obligation bond for infrastructure improvements with an original amount of \$1,255,000 due in installments of \$30,000 to \$115,000 through July 1, 2032	1,195,000
2013 General obligation bond for infrastructure improvements with an original amount of \$985,000 due in installments of \$15,000 to \$85,000 through July 1, 2037	955,000
2014 General obligation bond for infrastructure improvements with an original amount of \$6,940,000 due in installments of \$195,000 to \$560,000 through July 1, 2038	6,745,000
2014 General obligation bond for two properties acquisitions for municipality facility development with an original amount of \$100,000 due in installments of \$5,000 to \$10,000 through July 1, 2028	95,000
2014 General obligation bond for infrastructure improvement with an original amount of \$3,230,000 due in installments of \$70,000 to \$295,000 through July 1, 2033	3,160,000
2014 General obligation bond for infrastructure improvement with an original amount of \$5,565,000 due in installments of \$125,000 to \$510,000 through July 1, 2033	5,440,000
2014 General obligation bond for infrastructure improvement with an original amount of \$525,000 due in installments of \$5,000 to \$45,000 through July 1, 2038	520,000
2014-General obligation bond for infrastructure improvement with an original amount of \$920,000 due in installments of \$100,000 to \$30,000 through July 1, 2030	<u>920,000</u>
Total general obligation bonds in Governmental Activities	\$ 66,382,000
Add: Special Obligation Bond in Business Type Activities	
2012 Special obligation bond for infrastructure improvements with an original amount of \$754,000 due in installments of \$130,000 to \$174,000 through July 1, 2016	<u>174,000</u>
Total general obligation bonds in Governmental Activities and Business Type Activities	<u>\$ 66,556,000</u>

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds, except the 1997 Series bonds for \$110,000 and \$290,000, and the 2006 Series bonds amounting to \$532,000, are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2008 Series bond amounting to \$3,720,000, the 2009 bond for \$930,000, the 2010 Series bond for \$537,000, and the 2012 Series bond amounting \$805,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

The 2012 Series bonds amounting to \$754,000 is payable by the self-generated revenues from the “Pabellón Rafael Hernández” charges for services and is accounted for in the business type activity.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,931,000	\$ 3,234,321
2017	2,923,000	3,723,112
2018	3,139,000	3,837,776
2019	3,300,000	3,670,013
2020	3,522,000	3,506,675
2021-2025	16,129,000	14,945,846
2026-2030	17,792,000	9,072,480
2031-2035	14,615,000	2,967,570
2036-2040	2,205,000	184,688
Total Bonds Payable	<u>\$ 66,556,000</u>	<u>\$ 45,142,481</u>

3. **Notes Payable-** The proceeds of the issuance of notes payables 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:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2015</u>
Section 108 Series 2008 A	7-1-2028	5,500,000	5.11%	\$ 3,970,000
2009 Series	7-1-2033	1,141,000	1.718% to 6.50%	1,021,000
2010 Series	7-1-2017	345,000	4.73%	115,000
2010 Series	7-1-2017	65,000	5% to 7%	20,000
2012 Series	7-1-2018	480,000	6% to 7.50%	240,000
2013 Series	7-1-2019	540,000	6% to 7.5%	415,000
2014 Series	7-1-2020	620,000	6% to 7.5%	550,000
Total notes payable				<u>\$ 6,331,000</u>

11. LONG-TERM LIABILITIES (CONTINUED)

This notes, except the 2009 and 2012 Series are payable from the special ad valorem property tax of 2.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2009, amounting \$1,141,000, and the 2012 Series amounting to \$480,000 are payable with the revenues generated from the collection of the .2% of the Municipal Sales and Use Taxes Redemption Fund.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 616,000	\$ 285,911
2017	641,000	293,571
2018	591,000	270,497
2019	521,000	238,889
2020	541,000	207,819
2021-2025	1,855,000	695,382
2026-2030	1,215,000	238,938
2031-2035	351,000	48,652
Total	<u>\$ 6,331,000</u>	<u>\$ 2,279,659</u>

4. **Compensated absences-** The government-wide statement of Net Position includes \$1,772,163 of accrued sick leave benefits, and approximately \$1,152,911 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Claims and Judgments** – This amount represents the balance related to legal claims at June 30, 2015, as described in **Note 17**.
6. **Landfill obligation-** State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for thirty 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. During June 30, 2004, the Municipality entered in an agreement with a contractor to complete the final cover of the landfill for a total cost of \$873,569 and additional inspection, monitoring, and supervision costs amounting to \$90,079 for a total cost of \$963,648. Based on this, the Municipality has recognized \$20,383 as the Municipality's estimated current cost for landfill closure as of June 30, 2015. The preliminary annual estimate of post closure costs has been adjusted to approximately \$1,717,000 for a period of approximately 20 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. As of June 30, 2015, the Municipality's landfill facilities have been closed. The balance of closure and post-closure costs of \$20,383 and \$1,717,000 respectively, are reported in the government-wide statement of net position.
7. **Note payable to P.R. Aqueduct and Sewer Authority** – This amount represents the balance of a debt repayment agreement with the Authority at June 30, 2015.
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 \$397,617.
9. **Notes payable to CRIM - Law No. 42** - This amount represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015 as described in **Note 12**.

12. 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 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. 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. At the date of this report, the Final Liquidation has not been issued by the CRIM.

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 authorized the CRIM to sell property tax receivables related to taxpayers who owned property taxes from 1974 to 1996. The property tax receivables were purchased by Public Financing Corporation, a subsidiary of the Government Development Bank (GDB), with proceeds of a bonds issuance. This Law imposes to the CRIM the obligation to replace any uncollectible property tax receivable with any valid property tax receivables or equivalent in money.

12. PROPERTY TAXES (CONTINUED)

A high percentage of receivables were determined to be uncollectible receivables, and therefore, on October 11, 2001, Public Law No. 146 was enacted which authorized the CRIM to obtain a loan to pay in advance the bonds issued by the Public Financing Corporation (a GDB subsidiary), and any costs related to the transaction. Also, a term not to exceeding 30 years was authorized to the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from the sale of property tax receivables to the Public Financing Corporation (a GDB Subsidiary).

The government wide statement of net position includes an outstanding debt balance of \$208,774 related to Law No. 42.

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.

The annual tax rate is 9.03% for real property and 7.03% 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 and the remaining .20 % is paid by the Commonwealth of Puerto Rico, as a subsidy. The remaining percentage is distributed as follows: (a) 6% and 4%, 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) 2.00% and 2.00%, respectively, represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

13. SALES AND USE TAX

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).

13. SALES AND USE TAX (CONTINUED)

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.

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 Dorado 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,

13. SALES AND USE TAXES (CONTINUED)

- .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.

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.

13. SALES AND USE TAXES (CONTINUED)

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 Dorado, the implementation date was February 1, 2015. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

14. 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

14. PENSION PLAN (CONTINUED)

the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 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 \$872,506.

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. 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 \$219,796, of which \$57,573 (26%) 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).

14. PENSION PLAN (CONTINUED)

However, as indicated in the Basis for Qualified 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.

15. 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 bonuses and death benefits. However, beginning July 1, 2013, Act No. 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 \$270,637, of which \$145,000 (53%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

16. RISK MANAGEMENT

The Property Division is responsible of assuring that the Municipality's property is properly insured. Annually, the Property Division compiles the information of all property owned and its respective market value. After evaluating this information, the Property Division submits the data regarding the Municipality's properties to its private insurance broker so they can request quotes for the various insurance policies. The insurance companies that meet the Municipality's criteria are selected for each fiscal year. Settled claims have not exceeded commercial coverage in any of the past three (3) fiscal years.

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 grating 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.

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$32,975 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

It is the management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

18. RESTATEMENT OF FUND BALANCE AND NET POSITION

The following table disclosed the net change in fund balances and net position at beginning of year as previously reported in the financial statements. The beginning balances have been restated as follows:

	Fund Financial Statements		Government-wide Financial Statement
	Debt Service Fund	Other Governmental Funds	Net Position
Total fund balances/ net position, at beginning of year, as previously reported	\$ 10,422,988	\$ 5,260,365	\$ 91,801,240
Correction of errors:			
Understatement of matured bonds and interest payable	(4,778,315)		(4,778,315)
Overstatement in long term debt			2,557,576
Overstatement of intergovernmental revenues		86,966	86,966
Understatement of Christmas bonus			(292,255)
Fund balance/ net position, beginning as restated	\$ 5,644,673	\$ 5,347,331	\$ 89,375,212

19. SUBSEQUENT EVENT

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.

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

19. SUBSEQUENT EVENT (CONTINUED)

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.

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(See Note 1)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:				
Property taxes	\$ 9,778,151	\$ 10,641,551	\$ 10,641,551	\$ -
Municipal license tax	3,779,363	3,779,363	4,160,960	381,597
Municipal sales tax	2,704,000	2,704,000	3,279,573	575,573
Licenses, permits and other local taxes	1,125,000	1,125,000	1,727,428	602,428
Intergovernmental	2,698,942	2,698,942	2,731,646	32,704
Rent of property	80,000	80,000	312,444	232,444
Fines and forfeitures	35,100	35,100	46,133	11,033
Interest	261,000	261,000	291,950	30,950
Miscellaneous	<u>311,000</u>	<u>311,000</u>	<u>260,467</u>	<u>(50,533)</u>
Total revenues	<u>20,772,556</u>	<u>21,635,956</u>	<u>23,452,152</u>	<u>1,816,196</u>
Budgeted Carryover (1)	-	3,588,008	3,588,008	-
Total revenues after carryover	<u>20,772,556</u>	<u>25,223,964</u>	<u>27,040,160</u>	<u>1,816,196</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	12,298,815	15,218,144	14,295,177	922,967
Public safety	1,973,836	1,855,817	1,737,753	118,064
Public works	5,590,974	7,129,804	6,952,388	177,416
Culture and recreation	828,171	939,439	782,388	157,051
Operating transfer to other funds	<u>80,760</u>	<u>80,760</u>	<u>80,760</u>	<u>-</u>
Total expenditures, encumbrances and other financing uses	<u>20,772,556</u>	<u>25,223,964</u>	<u>23,848,466</u>	<u>1,375,498</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,191,694</u>	<u>\$ 3,191,694</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) available for appropriation" from the budgetary comparison schedule				\$ 27,040,160
Differences-budget to USGAAP:				
Budget carryover				(3,588,008)
Non-budgetary transfer-in				307,858
GAAP adjustments to revenues				<u>306,232</u>
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 24,066,242</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) total charges to appropriations" from the budgetary comparison schedule				\$ 23,848,466
Differences-budget to USGAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				748,909
Current year encumbrances recorded as expenditures for budgetary purposes				(845,364)
Non-budgetary transfer-out				161,010
GAAP adjustments to expenditures				<u>1,052,182</u>
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 24,965,203</u>

(1) Represents fund balances carried over from prior years

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with 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.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
BALANCE SHEET		
Assets	Current Assets Cash	
111	Cash – Unrestricted	\$ 276,298
113	Cash - Other Restricted	-
100	Total Cash	<u>276,298</u>
121	Accounts Receivable - PHA Projects	13,002
122	Accounts Receivable - HUD Other Projects	4,214
125	Accounts Receivable - Miscellaneous	1,912
128	Fraud Recovery	75,498
128.1	Allowance for Doubtful Accounts - Fraud	(52,666)
150	Total Current Assets	<u>41,960</u>
	Non-Current Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	60,233
166	Accumulated Depreciation	(58,109)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>2,124</u>
180	Total Non-Current Assets	<u>2,124</u>
290	Total Assets and Deferred Outflow of Resources	<u>\$ 320,382</u>
Liabilities and Equity	Liabilities	
312	Accounts Payable (less 90 days)	22,355
332	Accounts Payable – PHA Projects	-
333	Accounts Payable – Other Government	7,369
345	Other Current Liabilities	4,204
310	Total Current Liabilities	<u>33,928</u>
353	Non-Current Liabilities - Other	28,640
350	Total Non-Current Liabilities	<u>28,640</u>
300	Total Liabilities	<u>62,568</u>
400	Deferred Inflow of Resources	-
Equity	Equity	
508.4	Net Investment in Capital Assets	2,124
511.4	Restricted Net Position	-
512.4	Unrestricted Net Position	255,690
513	Total Equity - Net Assets/Position	<u>257,814</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position	<u>\$ 320,382</u>

See notes to the Financial Data Schedule

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
INCOME STATEMENT		
70600	HUD PHA Operating Grants	\$ 1,951,263
71100	Investment Income - Unrestricted	107
71400	Fraud Recovery	6,442
71500	Other Revenue	77,654
70000	Total Revenues	<u>2,035,466</u>
Expenses Administrative:		
91100	Administrative Salaries	109,898
91200	Auditing Fees	2,930
91500	Employee Benefit Contributions - Administrative	18,097
91600	Offices Expenses	36,423
91800	Travel	-
91000	Total Operating - Administrative	<u>167,348</u>
96200	Other General Expenses	15,318
96600	Bad Debt - Other	7,954
96000	Total Other General Expenses	<u>23,272</u>
96900	Total Operating Expenses	<u>190,620</u>
97000	Excess of Operating Revenue over Operating Expenses	1,844,846
97300	Housing Assistance Payments	1,777,277
97350	HAP Portability-In	60,290
97400	Depreciation Expense	1,640
90000	Total Expenses	<u>2,029,827</u>
10000	Excess (Deficiency) of Total Revenues Over (Under) Total Expenses	<u>\$ 5,639</u>
Memo Account Information:		
*11030	Beginning Equity	\$ 252,175
11040	Prior Period Adjustment	\$ -
*11170	Administrative Fee Equity	\$ 257,814
*11180	Housing Assistance Payments Equity	\$ -
*11190	Unit Months Available	3,324
*11210	Number of Unit Months Available	3,254

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
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 179,966
Total U.S. Department of Agriculture			179,966
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Community Development Block Grant – Section 108 Loan Guarantees	14.248	Not Available	49,204
Section 8 Housing Choice Voucher Program	14.871	Not Available	1,951,263
Pass-through the Commonwealth of Puerto Rico Office of the Commissioner of Municipal Affairs:			
Community Development Block Grant - State Program	14.228	Not Available	181,565
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	28,826
Total U.S. Department of Housing and Urban Development			2,210,858
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Program:			
Federal Transit- Formula Grants (Recovery Act Funded)	20.507		92,810
Total U.S. Department of Transportation			92,810

<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>
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Governor's Office (OGAVE) (Cluster of Programs)			
Special Programs for Aging – Title III, Part C – Supportive Services and Seniors Center	93.044	Not Available	130,861
Special Programs for Aging – Title III, Part C - Nutrition Services	93.045	Not Available	18,647
<i>Head Start Cluster:</i>			
Direct Program:			
Early Head Start	93.600	Not Available	1,193,655
Community Services Block Grant	93.569	Not Available	2,211
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Head Start Program	93.600	Not Available	<u>3,083,233</u>
Total U.S. Department of Health and Human Services			<u>4,428,607</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$6,912,241</u>

The accompanying notes are an integral part of this schedule

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

3. 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 Head Start	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	\$ 4,456,854	\$ 2,455,387	\$ 6,912,241
Non - federal programs expenditures	-	1,707,895	1,707,895
Total expenditures in the basic financial statements	\$ 4,456,854	\$ 4,163,282	\$ 8,620,136

4. SECTION 108 LOAN PAYMENTS

For the fiscal year ended June 30, 2015, the Municipality paid the amount of \$306,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).



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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 Dorado
Dorado, 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, the business-type activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Dorado**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Autonomous Municipality of Dorado's** basic financial statements and have issued our report thereon dated March 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered **Autonomous Municipality of Dorado'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 Dorado's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Autonomous Municipality of Dorado'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weakness as item **2015-001**.



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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 Dorado's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item **2015-001**.

Autonomous Municipality of Dorado's Response to Findings

Autonomous Municipality of Dorado's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Dorado'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 7, 2016

Stamp No 2728479 of the Puerto Rico Society of Certified Public Accountants was affixed to the record copy of this report.



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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 Dorado
Dorado, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Autonomous **Municipality of Dorado'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 the **Autonomous Municipality of Dorado's** major federal programs for the year ended June 30, 2015. The **Autonomous Municipality of Dorado'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 Dorado'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 the **Autonomous Municipality of Dorado's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



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

Other Matters

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

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

Report on Internal Control over Compliance

Management of the **Autonomous Municipality of Dorado** 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 Dorado'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 Dorado'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.



López-Vega, CPA, PSC

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

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

The **Autonomous Municipality of Dorado's** response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Dorado's** response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the **Autonomous Municipality of Dorado** in a separate letter dated March 7, 2016.

The purpose of this report on internal control 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. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 7, 2016

Stamp No. 2728480 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

Type of auditor’s report issued:	Unmodified for FFS	Qualified for GWFS
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 X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported

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

Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes No **X**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start Cluster:
93.600	Head Start Program
	Early Head Start
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes No X

Section II – Financial Statements Findings

This significant deficiency in internal controls is considered an instance of noncompliance (NC).

Finding Reference **2015-001**

Requirement **Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (MW)**

Statement of Condition 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 and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the 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. 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.

Criteria GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.

Cause of Condition 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.

Effect of Condition The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.

Section II – Financial Statements Findings

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

Recommendation We recommend the 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 necessary to comply with the requirements of the GASB Statement No. 68.

Questioned Cost None

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

Implementation Date: Still in process

Responsible Person: Mr. Luis Sierra Salgado,
Finance Department Director

Section III- Major Federal Award Program Findings and Question Costs

Finding Reference	2015-002
Program	Head Start (CFDA. No. 93.600); U.S. Department of Health and Human Services; Pass through State – Commonwealth of Puerto Rico Administration for Children and Families.
Requirement	Cash Management
Statement of Condition	During our Cash Management Test to Head Start Program, we found the following exception: a. We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.
Criteria	Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7), requires a cash management system in order to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursements made by the grantee
Cause of Condition	There are no adequate internal controls to assure that funds requested to the federal agency are disbursed for immediate needs.
Effect of Condition	The Program is not in compliance with Code of Federal Regulations 45, Subpart C, Section 92.20 (b) (7).
Recommendation	We recommend management to follow cash management system procedures developed by it in order to assure that funds requested are disbursed as required by the regulation.
Questioned Costs	None
Management Response and Corrective Action	The Program will establish a double verification procedure for the supporting documents related to each fund request in order to assure its correction and accuracy. Also, a daily verification of the bank account balances will be performed to avoid unnecessary or excessive requests. Implementation date: February, 2016 Responsible Person: Sarahí Meléndez – Program Director

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
14-01	93.600	<p><u>During our Cash Management Test to Head Start Program, we found the following exception: a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-002.</p>
13-02	93.600	<p><u>During our Cash Management Test to Head Start Program, we found the following exceptions: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During two (2) months the bank reconciliations reflected an overdraft. In our Cash Management Test of ARRA Early Head Start Program, we found the following: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During three (3) months the bank reconciliations reflected an overdraft.</u></p> <p>Partial corrective action was taken. See finding reference 2015-002.</p>
12-02	93.600 93.709	<p><u>During our Cash Management Test to Head Start Program, we found the following exceptions: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During two (2) months the bank reconciliations reflected an overdraft. In our Cash Management Test of ARRA Early Head Start Program, we found the following: (a) We noted that the Program requested funds that were not disbursed on a reasonable lapse of time. (b) During three (3) months the bank reconciliations reflected an overdraft.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-002.</p>