

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

**MUNICIPIO DE QUEBRADILLAS
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS**

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

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PART I – FINANCIAL SECTION

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

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MUNICIPALITY OF QUEBRADILLAS
BASIC FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of Quebradillas
Quebradillas, 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 Municipality of Quebradillas, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Basis for Qualified Opinion on Governmental Activities

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

Qualified Opinion

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

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 10 and 50 to 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted required supplementary information related to new pensions standards that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standard Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2016, on our consideration of the Municipality of Quebradillas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Quebradillas' internal control over financial reporting and compliance.

San Juan, Puerto Rico
January 27, 2016

The stamp E194883 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**Commonwealth of Puerto Rico
Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

The Municipality of Quebradillas (the "Municipality") discussion and analysis has been designed with the followings goals:

- a) Assist the reader in focusing on significant financial issues,
- b) Provide an overview of the Municipality's financial activity,
- c) Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d) Identify any material deviations from the financial plan (the approved budget), and;
- e) Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Municipality's financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's net position of governmental activities increased by \$457,663.
- The General Fund (the primary operating fund) reflected, on a current financial resource basis, an increase of \$476,593.
- On a budgetary basis, actual revenues exceed actual expenditures by \$988,972.
- Capital expenditures amounted to \$770,220.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between both reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities that will only result in cash flows in future fiscal periods. The Statement of Activities is focused on both the

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Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

gross and net cost of various activities, which are provided by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of cost of various governmental services.

Both government-wide financial statements distinguish governmental activities of the Municipality from business-type activities that are intended to recover significant portion of their costs from fees and charges. Governmental activities include general government, public safety, culture and recreation, health and welfare and public work. Business-type activities include park and recreation utilities.

The report on the governmental activities was qualified because the Municipality has not recorded the deferred outflows/inflows of resources, and net pension liability in governmental activities and, has not recorded an expense for the current period change in that liability, as required under Statement No. 68 of the Government Accounting Standard Board, *Accounting and Financial Reporting for Pensions*. It was because the Employees' Retirement System of the Government of Puerto Rico did not provide the data related to pension expense and obligation change attributable to the Municipality.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government Wide Financial Statements. However, unlike the Government Wide Financial Statements, Government Fund Financial Statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the Municipality's near term financial requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the Municipality's near term financial decisions. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Infrastructure Assets

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in government financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Statements. Additionally, the government must elect to either (a) Depreciate these assets over their estimated useful life or (b)

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Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

Develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (the modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time. The Municipality has elected to depreciate infrastructure assets instead of using the modified approach.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Municipality's net position of governmental activities totaled \$32.0 million at the end of 2015, compared to \$31.5 million at the end of the previous year. The business-type activities' net position totaled \$2.6 million at the end of 2015, compared to \$2.6 of previous year.

The largest portion of the Municipality's net position consists of the investment made throughout the years in capital assets such as land, buildings, equipment and infrastructure. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service represents another portion of the net position, and these are resources subject to external restrictions for the purposes explained above.

The unrestricted deficit of governmental activities is the consequence of previous budgets which did not provide funding for incurred long-term obligations such as compensated absences and claims and judgments among others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations. The restricted portion consists of monies reserved for debt service and future capital expenditures.

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Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

Municipality of Quebradillas
Condensed Statement of Net Assets
June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current assets	\$ 15,909,690	\$ 15,031,572	\$ 339,458	\$ 278,433	\$ 16,249,148	\$ 15,310,005
Capital assets	33,161,097	33,467,118	2,316,084	2,364,494	35,477,181	35,831,612
Total assets	49,070,787	48,498,690	2,655,542	2,642,927	51,726,329	51,141,617
Current liabilities	3,893,686	3,811,592	19,249	11,920	3,912,935	3,823,512
Deferred inflows of resources	502,040	537,641	-	-	502,040	537,641
Noncurrent liabilities	12,689,561	12,621,620	-	-	12,689,561	12,621,620
Total liabilities	17,085,287	16,970,853	19,249	11,920	17,104,536	16,982,773
Invested in capital assets, net of related debt	30,325,633	30,331,654	2,316,084	2,364,494	32,641,717	32,696,148
Restricted	5,585,673	2,936,475	-	-	5,585,673	2,936,475
Unrestricted	(3,925,806)	(1,740,292)	320,209	266,513	(3,605,597)	(1,473,779)
Total net assets	\$ 31,985,500	\$ 31,527,837	\$ 2,636,293	\$ 2,631,007	\$ 34,621,793	\$ 34,158,844

Changes in Net Position – Governmental Activities

The Municipality's net position increased by \$457,663, twenty seven (27%) percent of the Municipality's total revenue came from taxes generated by the General Fund. Federal Grants was thirty three (33%) percent, while the State Contributions made forty (40%) percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government, public works and public safety.

Changes in Net Position – Business-type Activities

The Municipality's net position increased by \$5,286; the total revenues came from charges of services of the operating activities of business-type.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

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Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$11,869,776 an increase of \$894,597 in comparison with the prior year. There are reservations of fund balance amounting to \$5,867,839.

The general fund is included within the governmental funds; it is the chief operating fund of the Municipality. As of June 30, 2015, the general fund has a balance of \$6,014,245. The prior year surplus of \$5,537,652 was increased by \$476,593 during fiscal year 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Council revised the Municipality's budget to reclassify certain expenditures among the different governmental functions. Such reclassifications were necessary to provide for the developments that reflected the Municipality's finances.

Revenues of the current year had increased by \$196,991 compared with the prior year. The increase in fund balance is related to a transfer-in from Debt Services Fund and increases in revenues. The actual revenues increased the revised budget revenues by \$370,000. The most significant variances were the municipal and sales use taxes with \$69,530 and \$128,810 on surplus, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2015, amounted to \$48.2 million, net of accumulated depreciation of \$14.1 million, leaving a net book value of \$33.2 million. These investments in capital assets included land, buildings and buildings improvements, equipment, intangibles, and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond issuances. The proceeds from bond issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes.

The Municipality acquired a total of \$834,348 of capital assets during the fiscal year 2014-2015. Capital assets acquired during the year were as follows:

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Municipality of Quebradillas**

Management's Discussion and Analysis

Year Ended June 30, 2015

- Construction in Progress - \$174,208
- Building and building improvements - \$463,951
- Acquisition of Equipment and Vehicles - \$196,189

Other projects related to repair and maintenance of roads (not capitalized) was development during the year 2015.

Debt Administration

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

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal and interest on all general obligation municipal bonds and notes, and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal grant revenues may vary if new grants are available but the revenue also is very predictable.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact CPA Mariannet Padín Cubero, Chief Financial Officer on the Finance Offices in the Central Town, Quebradillas, Puerto Rico.

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Government
<u>Assets</u>			
Cash in bank (Notes 2 and 4)	\$ 7,510,306	\$ 339,458	\$ 7,849,764
Cash with fiscal agent (Notes 2 and 4)	4,983,989		4,983,989
Accounts receivable:			
Property taxes	10,090		10,090
Other	1,295		1,295
Due from other agencies (Note 8)	3,404,010		3,404,010
Capital assets, net (Note 10)	33,161,097	2,316,084	35,477,181
Total assets	<u>49,070,787</u>	<u>2,655,542</u>	<u>51,726,329</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>			
Liabilities			
Accounts payable and accrued liabilities	498,667		498,667
Due to other agencies (Note 11)	2,837,030	19,249	2,856,279
Matured bonds and interest payable	550,149		550,149
Claims and judgments	7,840		7,840
Noncurrent liabilities (Note 14):			
Due within one year	534,512		534,512
Due in more than one year	11,644,136		11,644,136
Accrued interest	510,913		510,913
Total liabilities	<u>16,583,247</u>	<u>19,249</u>	<u>16,602,496</u>
Deferred Inflows of Resources (Notes 6 and 12)			
Unearned revenue from:			
Municipal license taxes (Note 12)	502,040	-	502,040
Total deferred inflows of resources	<u>502,040</u>	<u>-</u>	<u>502,040</u>
Net Position			
Investment in capital assets, net of related debt	30,325,633	2,316,084	32,641,717
Restricted for:			
Debt service	1,613,052		1,613,052
Capital projects	3,972,621		3,972,621
Unrestricted (deficit)	(3,925,806)	320,209	(3,605,597)
Total net position	<u>\$ 31,985,500</u>	<u>\$ 2,636,293</u>	<u>\$ 34,621,793</u>

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

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Governmental activities:						
General government	\$ 7,325,039	\$ 341,792	\$ -	\$ -	\$ (6,983,247)	\$ -
Public safety	1,454,538				(1,454,538)	
Culture and recreation	509,608		1,039,153		529,545	
Health and welfare	3,805,955		3,179,961		(625,994)	
Public work	4,415,665			606,324	(3,809,341)	
Interest on long-term debt	336,803				(336,803)	
Total governmental activities	<u>17,847,608</u>	<u>341,792</u>	<u>4,219,114</u>	<u>606,324</u>	<u>(12,680,378)</u>	<u>-</u>
Business-Type Activities:						
Aquatic Park	<u>297,657</u>	<u>302,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,286</u>
Total primary government	<u>\$ 18,145,265</u>	<u>\$ 644,735</u>	<u>\$ 4,219,114</u>	<u>\$ 606,324</u>	<u>\$ (12,680,378)</u>	<u>\$ 5,286</u>
General revenues:						
Property taxes (Note 5)					2,471,105	-
Municipal license taxes (Note 6)					779,530	
Sales and use taxes (Note 7)					1,383,993	
Grants and contributions not restricted to specific programs					7,324,362	
Interest, fines, and penalties					144,993	
Miscellaneous					1,034,058	
Total general revenues					<u>13,138,041</u>	<u>-</u>
Change in net position					457,663	5,286
Net position at beginning of year					31,527,837	2,631,007
Net position at end of year					<u>\$ 31,985,500</u>	<u>\$ 2,636,293</u>

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

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

<u>Assets</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Health and Human Services Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash in bank (Notes 2 and 4)	\$ 6,045,997	\$ -	\$ 56,850	\$ 1,407,459	\$ 7,510,306
Cash with fiscal agent (Notes 2 and 4)	296,066	2,153,111		2,534,812	4,983,989
Accounts receivable:					
Property taxes		10,090			10,090
Other				1,295	1,295
Due from other agencies (Note 8)	2,845,380		336,094	222,536	3,404,010
Due from other funds (Note 9)	332,300			72,520	404,820
 Total assets	 <u>\$ 9,519,743</u>	 <u>\$ 2,163,201</u>	 <u>\$ 392,944</u>	 <u>\$ 4,238,622</u>	 <u>\$ 16,314,510</u>

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS
BALANCE SHEET-GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2015**

<u>Liabilities and Fund Balances</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Health and Human Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities					
Accounts payable and accrued liabilities	\$ 93,908	\$ -	\$ -	\$ 56,787	\$ 150,695
Due to other funds (Note 9)	72,520		123,086	209,214	404,820
Due to other agencies (Note 11)	2,837,030				2,837,030
General obligations: (Note 14)					
Bonds		365,000			365,000
Interest		185,149			185,149
Total liabilities	<u>3,003,458</u>	<u>550,149</u>	<u>123,086</u>	<u>266,001</u>	<u>3,942,694</u>
Deferred Inflows of Resources					
Unearned revenue from:					
Municipal license taxes (Note 12)	502,040				502,040
Total deferred inflows of resources	<u>502,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>502,040</u>
Fund Balances					
Restricted		1,613,052	269,858	1,533,078	3,415,988
Committed				2,425,197	2,425,197
Assigned	19,834			6,820	26,654
Unassigned	5,994,411			7,526	6,001,937
Total fund balances	<u>6,014,245</u>	<u>1,613,052</u>	<u>269,858</u>	<u>3,972,621</u>	<u>11,869,776</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,519,743</u>	<u>\$ 2,163,201</u>	<u>\$ 392,944</u>	<u>\$ 4,238,622</u>	<u>\$ 16,314,510</u>

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

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

Total fund balances - governmental funds \$ 11,869,776

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

- Capital assets, net, used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 33,161,097

- Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. **(Note 3)** (13,045,373)

Net position of governmental activities \$ 31,985,500

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Health and Human Services Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes (Note 5)	\$ 1,970,422	\$ 500,683	\$ -	\$ -	\$ 2,471,105
Municipal license taxes (Note 6)	779,530				779,530
Sales and use taxes (Note 7)	948,199	435,794			1,383,993
Licenses, permits, and other local taxes	283,962				283,962
Charges for services	57,830				57,830
Intergovernmental revenues (Note 13):					
Federal grants and contributions			3,485,026	1,340,412	4,825,438
State contributions	6,293,287			1,031,075	7,324,362
Interest, fines, and penalties	139,200	1,726		4,067	144,993
Other revenues	1,002,989			31,069	1,034,058
Total revenues	<u>11,475,419</u>	<u>938,203</u>	<u>3,485,026</u>	<u>2,406,623</u>	<u>18,305,271</u>
EXPENDITURES					
Current:					
General government	6,374,262			177,333	6,551,595
Public safety	1,407,723			1,093	1,408,816
Health and welfare	675,777		3,127,262		3,803,039
Culture and recreation	241,147		167,447		408,594
Public works	2,132,523			1,431,403	3,563,926
Capital outlays				770,220	770,220
Debt service:					
Principal		493,185			493,185
Interest and other		411,299			411,299
Total expenditures	<u>10,831,432</u>	<u>904,484</u>	<u>3,294,709</u>	<u>2,380,049</u>	<u>17,410,674</u>
Excess of revenues over (under) expenditures	<u>643,987</u>	<u>33,719</u>	<u>190,317</u>	<u>26,574</u>	<u>894,597</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	1,378	168,772			170,150
Transfers out	(168,772)	(1,378)		-	(170,150)
Total other financing sources (uses)	<u>(167,394)</u>	<u>167,394</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in total fund balances	476,593	201,113	190,317	26,574	894,597
FUND BALANCES AT BEGINNING OF YEAR	<u>5,537,652</u>	<u>1,411,939</u>	<u>79,541</u>	<u>3,946,047</u>	<u>10,975,179</u>
FUND BALANCES AT END OF YEAR	<u>\$ 6,014,245</u>	<u>\$ 1,613,052</u>	<u>\$ 269,858</u>	<u>\$ 3,972,621</u>	<u>\$ 11,869,776</u>

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

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

Net change in fund balances - total governmental funds \$ 894,597

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 770,220
- Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (1,076,241)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 493,185
- Change in accrued interest expense which does not require the use of current financial resources. 74,496
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (698,594)

Changes in net position of governmental activities \$ 457,663

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	<u>Aquatic Park Fund</u>
<u>Assets</u>	
Cash in bank (Notes 2 and 4)	\$ 339,458
Capital assets, net (Note 10)	2,316,084
Total assets	2,655,542
<u>Liabilities and Net Position</u>	
Liabilities	
Due to agency (Note 11)	19,249
Total liabilities	19,249
Net Position	
Net investment in capital assets	2,316,084
Unrestricted	320,209
Total net position	\$ 2,636,293

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	Aquatic Park Fund
OPERATING REVENUES	
Charges for services	\$ 302,943
Total operating revenues	302,943
OPERATING EXPENSES	
Salaries	98,010
Fringe benefits	8,523
Insurance	12,143
Office materials	2,177
Equipment	3,797
Maintenance materials	31,770
Miscellaneous	15,327
Utilities	75,714
Bank charges	1,786
Depreciation (Note 10)	48,410
Total operating expenses	297,657
CHANGE IN NET POSITION	5,286
TOTAL NET POSITION, BEGINNING	2,631,007
TOTAL NET POSITION, ENDING	\$ 2,636,293

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Aquatic Park Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 302,943
Payments to employees of services	(98,010)
Payment for insurance	(12,143)
Payments to suppliers	(131,765)
Net cash provided by operating activities:	<u>61,025</u>
NET INCREASE IN CASH	61,025
CASH AT BEGINNING OF YEAR	<u>278,433</u>
CASH AT ENDING OF YEAR	<u><u>\$ 339,458</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ <u>5,286</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	48,410
Increase in accounts payable	<u>7,329</u>
Total adjustments	<u>55,739</u>
Net cash provided by operating activities	<u><u>\$ 61,025</u></u>

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

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

1. ORGANIZATION

The Municipality of Quebradillas, Puerto Rico (Municipality) was founded in 1823. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of the municipal character, with perpetual succession existence and legal personality, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor, and the legislative by the Municipal Assembly, which has 14 members. The members of these branches are elected every four years in the Puerto Rico general elections.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

infrastructure. The net position of the Municipality will be broken down into three categories; invested in capital assets, net of related debt; restricted; and unrestricted.

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

The following is a summary of the more significant policies.

a. Reporting Entity

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

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable, but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

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

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

or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on the Municipality.

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

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

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

b. Government-Wide and Fund Financial Statements

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

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

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

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

Separate fund financial statements are provided for governmental funds and proprietary funds. Major governmental funds are reported on separate columns to segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

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

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

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

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

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

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

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

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

The Municipality reports the following major governmental funds:

1) General Fund

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

2) Debt Service Fund

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

3) Health and Human Services Fund

This fund account for revenue sources to provide essential human services such as improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence, and medical and social science research including the prevention of the outbreak of infectious disease and immunization services.

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

The government reports the following major proprietary fund:

The Aquatic Park accounts for the operation, maintenance, administration of aquatic park facilities. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets.

d. Cash and Cash with Fiscal Agent

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

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

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

e. Interfund Receivables and Payables

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

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

f. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets' sidewalks, and drainage system), are reported in the applicable governmental or component units columns in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

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

g. Fund Balances

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

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

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

- 1) *Nonspendable* - Represent resources that cannot be spent readily with cash or are legally or contractually required not be spent, including but not limited to inventories, prepaid items, and long term balances of interfund loans and accounts receivable.
- 2) *Restricted* - Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- 3) *Committed* - Represent resources used for specific purposes, imposed by formal action of the Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- 4) *Assigned* - Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- 5) *Unassigned* - Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

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

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

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

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

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

h. Risk Financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. The insurance policies are negotiated and paid by the Municipality for the year ended June 30, 2015 amounted to \$344,545. The current insurance policies have not been cancelled or terminated. The workers' compensation insurance is allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the fiscal year too, amounted \$261,929 for covering all municipal employees.

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

i. Compensated Absences

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

j. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority and the Municipal Revenue Collection Center caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

k. Pensions

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

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

I. Future Adoption of Accounting Pronouncements

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

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

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

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

m. Deferred Inflows

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

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

- Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as “*earned but unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2015 and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for deferred revenue is removed and revenue is recognized.

- The Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for deferred inflows is removed and revenue is recognized.

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

3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the

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current period and therefore are not reported in the funds. The details of the approximately \$13 million differences are as follows:

Bonds payable	\$ 4,360,000
Compensated absences	1,623,243
Notes payable	5,637,300
Accrued interest	510,913
Other long-term liabilities	565,945
Christmas bonus	<u>347,972</u>
Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	<u><u>\$13,045,373</u></u>

4. DEPOSITS

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

The deposits at GDB of approximately \$2,534,712 are restricted principally for capital projects, and the \$2,153,111 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

The Municipality maintains its deposits in one bank located at Puerto Rico and investments with GDB. All kind of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

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

5. PROPERTY TAXES

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and

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personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 8.83% for real property and 6.83% for personal property. The composition is as follows:

	Real	Personal
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property - municipal	2.00%	2.00%
Discounts made by state to tax payer	<u>(.20%)</u>	<u>(.20%)</u>
	<u>8.83%</u>	<u>6.83%</u>

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

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

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

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

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Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000.

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

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

Based on the preliminary settlement already received, during the year ended June 30, 2015, the amount advanced by CRIM exceeded the amount collected by CRIM from taxpayers and charges for the same period by approximately \$117,821. Such amount is presented as due from CRIM in the accompanying financial statements. (See note 8).

6. MUNICIPAL LICENSE TAXES

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

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An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15.

The rates of municipal license in the Municipality of Quebradillas are as follows:

Savings and loans associations	=	1.00%
Financial institutions	=	1.50%
Other organizations:		
Up to \$100,000	=	.30%
\$100,000 up to \$200,000	=	.40%
Over \$200,000	=	.50%

The amounts collected in advance are recorded as deferred inflows of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$502,040, corresponding to the next fiscal year municipal license.

7. SALES AND USE TAXES

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

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

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

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

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

8. DUE FROM OTHER AGENCIES

Represents grants and contributions due from local and federal agencies:

Puerto Rico Electric Power Authority	\$ 2,727,559
CRIM	117,821
Administration for Children and Family (Head Start Program)	196,200
Elderly Affairs Office (Title III Program)	81,595
Administration for Children and Family (Early Head Start Program)	58,299
Administration for Children and Family (Food Program)	54,227
OCAM (CDBG Program)	168,309
	<u>\$ 3,404,010</u>

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9. INTERFUND TRANSACTIONS

a. Due From/To Other Funds:

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	HHS	\$ 123,086
General	Other Governmental	209,214
Other Governmental	General	72,520
		<u>\$ 404,820</u>

The balance of \$72,520 due to the general fund from the Other Governmental Fund represents amount due from prior years related to state contributions' grants. Remaining transfers are used to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

b. Interfund Transfers:

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

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Service	\$ 1,378
Debt Service	General	168,772
		<u>\$ 170,150</u>

The transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection to the debt service fund as debt service payments become due, (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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10. CAPITAL ASSETS

a. Primary Government

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

<u>Primary Government</u>	<u>Balance June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,169,925	\$ -	\$ -	\$ 1,169,925
Construction in progress	802,196	174,208	64,128	912,276
Total capital assets, not being depreciated	<u>1,972,121</u>	<u>174,208</u>	<u>64,128</u>	<u>2,082,201</u>
Capital assets, being depreciated:				
Land improvement	1,552,433			1,552,433
Buildings and building improvements	33,892,838	463,951		34,356,789
Equipment	1,237,455	82,562		1,320,017
Work of arts	94,230			94,230
Vehicles	2,677,483	113,627		2,791,110
Infrastructure	5,031,641			5,031,641
Total capital assets, being depreciated	<u>44,486,080</u>	<u>660,140</u>	<u>-</u>	<u>45,146,220</u>
Less accumulated depreciation for:				
Land improvement	3,962,927	674,942		4,637,869
Buildings and building improvements	2,810,380	53,598		2,863,978
Equipment	1,019,019	126,463		1,145,482
Work of arts	8,250	2,750		11,000
Vehicles	2,485,720	78,105		2,563,825
Infrastructure	2,704,787	140,383		2,845,170
Total accumulated depreciation	<u>12,991,083</u>	<u>1,076,241</u>	<u>-</u>	<u>14,067,324</u>
Total capital assets, being depreciated, net	<u>31,494,997</u>	<u>(416,101)</u>	<u>-</u>	<u>31,078,896</u>
Governmental activities capital assets, net	<u>\$ 33,467,118</u>	<u>\$ (241,893)</u>	<u>\$ 64,128</u>	<u>\$ 33,161,097</u>

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

General government	\$ 74,850
Public safety	45,722
Health and welfare	2,916
Recreation	101,014
Public works	<u>851,739</u>
Total depreciation expense-governmental activities	<u>\$ 1,076,241</u>

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b. Business-Type Government

<u>Business-type government</u>	<u>Balance June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Total capital assets, not being depreciated	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets, being depreciated:				
Building	2,420,514			2,420,514
Total capital assets, being depreciated	<u>2,420,514</u>	<u>-</u>	<u>-</u>	<u>2,420,514</u>
Less accumulated depreciation for:				
Building	96,020	48,410		144,430
Total accumulated depreciation	<u>96,020</u>	<u>48,410</u>	<u>-</u>	<u>144,430</u>
Total capital assets, being depreciated, net	<u>2,324,494</u>	<u>(48,410)</u>	<u>-</u>	<u>2,276,084</u>
Business type government assets	<u>\$ 2,364,494</u>	<u>\$ (48,410)</u>	<u>\$ -</u>	<u>\$ 2,316,084</u>

11. DUE TO OTHER AGENCIES

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Puerto Rico Electric Power Authority	\$ 2,727,559	\$ -	\$ 2,727,559
Puerto Rico Water and Sewer Authority	64,248	19,249	83,497
General Services Administration	31,138	-	31,138
Labor Department	<u>14,085</u>	<u>-</u>	<u>14,085</u>
Total	<u>\$ 2,837,030</u>	<u>\$ 19,249</u>	<u>\$ 2,856,279</u>

12. DEFERRED INFLOWS OF RESOURCES

a. Municipal License Taxes

The deferred inflows of resources approximately \$502,040 in the general fund related to municipal license tax collected in fiscal year 2014-2015 that will be earned in fiscal year 2015-2016.

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b. Federal Government

The deferred inflows of resources presented as federal government represents the portion of federal grants received for which qualifying expenditures have not been incurred.

The amounts were determined taking into consideration the specific years of the grant.

13. INTERGOVERNMENTAL REVENUES

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

14. LONG-TERM DEBTS

Bonds and other long-term liabilities outstanding at June 30, 2015 are as follows:

Bonds

\$570,000 series of 2002, payable in annual installments of \$10,000 to \$50,000 until July 1, 2026, interest from 2.7% to 5.6%.	\$ 365,000
\$2,000,000 series of 2001, payable in annual installments of \$20,000 to \$175,000 until July 1, 2026, interest from 5% to 7%.	1,345,000
\$638,800 series of 2002, payable in annual installments of \$10,700 to \$49,200 until July 1, 2027, interest from 5% to 7.5%.	427,300
\$670,000 series of 2003, payable in annual installments of \$10,000 to \$50,000 until July 1, 2028, interest from 5% to 7.5%.	465,000

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\$2,135,000 series of 2005, payable in annual installments of \$65,000 to \$165,000 until July 1, 2024, interest from 4.37% to 6.5%.	\$ 1,220,000
\$455,000 series of 2004, payable in annual installments of \$15,000 to \$35,000 until July 1, 2024, interest from 3.27% to 6.5%.	260,000
\$1,110,000 series of 2008, payable in annual installments of \$25,000 to \$10,000 until July 1, 2027, interest from 6.48% to 7.5%.	840,000
\$420,000 series of 2010, payable in annual installments of \$50,000 to \$75,000 until July 1, 2016, interest from 5% to 7%.	75,000
\$1,710,000 series of 2010, payable in annual installments of \$25,000 to \$145,000 until July 1, 2034, interest from 6% to 7.5%.	1,530,000
\$100,000 series of 2010, payable in annual installments of \$5,000 to \$20,000 until July 1, 2026, interest from 6% to 7.5%.	70,000
\$3,635,000 series of 2012, payable in annual installments of \$55,000 to \$310,000 until July 1, 2036, interest from 6% to 7.5%.	<u>3,400,000</u>
Total bonds and notes payable	<u><u>\$ 9,997,300</u></u>

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Other Long-Term Liabilities

Note payable of \$203,419 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$15,024 plus

\$ 156,355

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

	<u>Bonds</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 325,000	\$ 215,544	\$ 199,600	\$ 295,369
2017	260,000	255,733	211,200	359,562
2018	275,000	239,930	237,900	346,165
2019	295,000	234,733	249,700	331,016
2020	310,000	219,626	266,600	321,834
2021-2025	1,650,000	737,395	1,671,900	1,373,249
2026-2030	725,000	329,100	1,265,400	816,674
2031-2035	520,000	101,250	1,225,000	405,750
2036-2037			310,000	23,250
	<u>\$ 4,360,000</u>	<u>\$2,333,311</u>	<u>\$ 5,637,300</u>	<u>\$ 4,272,869</u>

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

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable	\$ 4,660,000	\$ -	\$ 300,000	\$ 4,360,000	\$ 325,000
Notes payable	5,825,400		188,100	5,637,300	199,600
Total long-term debts	<u>10,485,400</u>	<u>-</u>	<u>488,100</u>	<u>9,997,300</u>	<u>524,600</u>
Other Long-term Liabilities:					
CRIM - Law 42	161,440		5,085	156,355	9,912
Claims and judgments	17,840		10,000	7,840	
CRIM	183,868	217,882		401,750	
Compensated absences	1,205,503	417,740		1,623,243	
Total other long-term liabilities	<u>1,568,651</u>	<u>635,622</u>	<u>15,085</u>	<u>2,189,188</u>	<u>9,912</u>
Total noncurrent liabilities, governmental activities	<u>\$ 12,054,051</u>	<u>\$ 635,622</u>	<u>\$ 503,185</u>	<u>\$ 12,186,488</u>	<u>\$ 534,512</u>

15. FUND BALANCES

	<u>General</u>	<u>Debt Service</u>	<u>Head Start Program</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:					
General government	\$ -	\$ -	\$ -	\$ 56,817	\$ 56,817
Public safety				54,422	54,422
Public works				1,391,150	1,391,150
Health and welfare			269,858	30,689	300,547
Debt service		1,613,052			1,613,052
Committed:					
General government				119	119
Public works				2,425,078	2,425,078
Assigned:					
General government	7,128				7,128
Public safety	148				148
Culture and recreation	2,237				2,237
Health and welfare	10,321			6,820	17,141
Unassigned	5,994,411			7,526	6,001,937
	<u>\$6,014,245</u>	<u>\$1,613,052</u>	<u>\$ 269,858</u>	<u>\$ 3,972,621</u>	<u>\$11,869,776</u>

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16. NET POSITION

Net position invested in capital assets, net of related debt, is comprised of the following:

Capital assets, net of accumulated	\$33,161,097
Outstanding balance on capital related debt	(4,360,000)
Unspent capital debt proceeds	<u>1,524,536</u>
 Total invested in capital assets, net of related debt	 <u><u>\$30,325,633</u></u>

17. RETIREMENT PLAN

a. Plan Description

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

b. Benefits Provided

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

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

Act No. 3, as enacted by legislation in April 4, 2013, constituted a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amended

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the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit program under Act No. 447 of 1951 and Act No. 1 of 1990, all requirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid a retirement through lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants is gradually increased from age 58 to age 61.
4. The retirement age for System 2000 participants is gradually increased from age 60 to age 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the merit annuity available who joined the ERS prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated

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for future retirees. The summer bonus was eliminated. Resulting employer contribution saving will be contributed to the ERS.

11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.

12. Survivor benefits were modified.

c. Contribution Requirements

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

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

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

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

The most recent available financial statements of the pension funds are for the year ended June 30, 2013, which reflected a significant unfunded actuarial liability.

This financial information included a decrease of 1.4% in the funded ratio of the actuarial accrued liability for pension benefits, 3.1% and 4.5% at June 30, 2013 and 2012, respectively. Furthermore, the ERS's financial report for the year ended June 30, 2014 and the amount of contributions recognized by the pension plan from the Municipality were not available as of June 30, 2015.

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

18. RISK MANAGEMENT

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

19. LEASES

Operating Leases

Leasing Arrangement with the Municipality as Lessor:

- a. The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- b. Total income from leases during the year ended June 30, 2015 was approximately \$52,070.
- c. The Municipality retains title to its leased property. The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

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

20. CONTINGENCIES

The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

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

21. COMMITMENTS

The Municipality of Quebradillas had outstanding or planned construction projects as of June 30, 2015. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Other Governmental Funds that amounted to approximately \$646,483.

22. SUBSEQUENT EVENTS

In preparing these financial statements, the Municipality has evaluated events and transactions for potential recognition or disclosure through January 27, 2016, the date on which the financial statements were available to be issued.

PART II – REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>(Negative)</u>
REVENUES				
Property taxes	\$ 1,891,845	\$ 1,891,845	\$ 1,891,845	\$ -
Municipal license taxes	710,000	710,000	779,530	69,530
Sales and use taxes	864,500	864,500	993,310	128,810
Licenses and permits	300,300	300,300	263,362	(36,938)
Charges for services and rent	64,000	64,000	68,186	4,186
Intergovernmental revenues:				
State contributions	6,008,529	6,166,626	6,175,465	8,839
Interest, fines, and penalties	151,500	151,500	145,951	(5,549)
Other revenues	170,000	170,000	173,652	3,652
Total revenues	<u>10,160,674</u>	<u>10,318,771</u>	<u>10,491,301</u>	<u>172,530</u>
EXPENDITURES				
Current:				
General government	5,766,092	6,155,444	5,495,281	660,163
Public safety	749,931	742,740	728,986	13,754
Public works	2,568,744	2,765,329	2,729,669	35,660
Recreation	288,852	252,947	230,990	21,957
Health and welfare	787,055	772,311	687,403	84,908
Total expenditures	<u>10,160,674</u>	<u>10,688,771</u>	<u>9,872,329</u>	<u>816,442</u>
OTHER FINANCING SOURCES				
Reprogramming funds	-	370,000	370,000	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 988,972</u>	<u>\$ 988,972</u>
Explanation of Differences:				
Sources/Inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 10,491,301
Differences - budget to GAAP:				
Net change in receivables				984,118
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 11,475,419</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 9,872,329
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				(89,640)
Net change in payables				1,028,909
Current year encumbrances recorded as expenditures for budgetary purposes				19,834
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 10,831,432</u>

The accompanying note to Budgetary Comparison Schedule
is an integral part of this schedule.

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

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

For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For 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. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

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

PART III – SINGLE AUDIT

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Housing and Urban Development (HUD)		
Direct Programs:		
Section 8 Housing Choice Vouchers	14.871	\$ 252,522
Pass-through Commissioner Office of Municipal Affairs -		
Community Development Block Grant/State's Program	14.228	668,351
Neighborhood Stabilization Program (NSP3) - Recovery Act Funded	14.228	11,488
Pass-through Department of Family:		
Emergency Shelter Grants Program (Prevention)	14.231	20,898
Subtotal U.S. Department of HUD		<u>953,259</u>
U.S. Department of Agriculture		
Pass-through Education Department:		
Child and Adult Care Food Program-Child Care	10.558	45,343
Child and Adult Care Food Program-Head Start	10.558	240,800
Subtotal U.S. Department of Agriculture		<u>286,143</u>
U.S. Department of Justice		
Direct Program:		
Crime Victim Assistance	16.575	21,194
Subtotal U.S. Department of Justice		<u>21,194</u>
U.S. Department of Health and Human Services (HHS)		
Pass-through the Puerto Rico Governor's Office (Elderly Affairs Office):		
Special Programs for the Aging, Title III, Part C	93.045	41,474
Special Programs for the Aging, Title III, Part E	93.045	26,968
Nutrition Services Incentive Program	93.053	62,435
Pass-through the Office of Administration for Children and Families:		
Child and Care and Development Block Grant	93.575	167,447
Pass-through the Office of Administration for Children and Families:		
Head Start	93.600	2,620,503
Early Head Start	93.600	375,882
Subtotal U.S. Department of HHS		<u>3,294,709</u>
TOTAL		<u>\$ 4,555,305</u>

See notes to schedule of Expenditures of Federal Awards.

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

1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Quebradillas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. BASIS OF PRESENTATION

The expenditures of the schedule are included in the Municipality's basic financial statements in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u>Expenditures</u>
Expenditures as per basic financial statements:	
Federal expenditures included within:	
Other governmental funds	\$ 1,260,596
Health and Human Services fund	<u>3,294,709</u>
Total	<u>\$ 4,555,305</u>
Total expenditures per schedule of expenditures of federal awards	<u>\$ 4,555,305</u>

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

To the Honorable Mayor and
Municipal Legislature
Municipality of Quebradillas
Quebradillas, 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 the Municipality of Quebradillas, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated January 27, 2016. The report on the governmental activities was qualified because the management has not recorded the deferred outflows/inflows of resources, and net pension liability, and has not recorded an expense for current period change in that liability.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no 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 cost as item 2015-001.

Purpose of this Report

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

San Juan, Puerto Rico
January 27, 2016

The stamp E194884 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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

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

Report on Compliance for each Major Federal Program

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

San Juan, Puerto Rico
January 27, 2016

The stamp E194885 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



Ortiz, Rivera, Rivera & Co.

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

1. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued:

Governmental activities				<u>Modified opinion</u>
Governmental funds				<u>Unmodified opinion</u>
Business-Type Activities				<u>Unmodified opinion</u>

Internal control over financial reporting:

Material weakness (es) identified?	<u>X</u>	Yes	___	No
Significant deficiency (ies) identified?	___	Yes	<u>X</u>	None reported
Noncompliance material to financial statements noted?	<u>X</u>	Yes	___	No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	___	Yes	<u>X</u>	No
Significant deficiency (ies) identified?	___	Yes	<u>X</u>	None reported

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

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of OMB Circular A-133?

___	Yes	<u>X</u>			No
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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF QUEBRADILLAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Cause

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

Recommendation

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

**3. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM
AUDIT**

None

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

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