

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

**MUNICIPIO DE RÍO GRANDE  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

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**COMMONWEALTH OF PUERTO RICO**

**MUNICIPALITY OF RIO GRANDE**

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

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**YEAR ENDED JUNE 30, 2015**

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Municipality of Río Grande  
P.O. Box 847, Río Grande, Puerto Rico 00745

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

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Summary of Opinions

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Basis for Qualified Opinion on Governmental Activities

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

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

Also, the Municipality's management could not provide evidence to validate the amount recorded in the government-wide financial statements as liability for compensated absences. Accounting principles generally accepted in the United States of America require that compensated absences 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 liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities can't be determined.

### Qualified Opinion

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

### Unmodified Opinions

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

### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 and Budgetary Comparison information on page 57, 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.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Rio Grande's** basic financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 59 through 60 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 7, 2016

Stamp No. 2728481 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



López-Vega, CPA, PSC  
Certified Public Accountants / Management Advisors

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

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

## FINANCIAL HIGHLIGHTS

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

1. Total assets of the Municipality amounted to \$88,840,337 which represents an increase of 2.6% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2015, total liabilities amounted to \$39,817,764. Out of said amount, \$34,040,494 corresponded to long-term liabilities of which \$30,626,000 represent the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.
3. Total Net Position of the Municipality amounted to \$49,022,573 which represents an increase of 5% compared to prior fiscal year, as restated.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$26,368,222 derived from the following sources: \$3,434,259 from charges for services; \$1,861,200 from operating grants and contributions; \$1,430,020 from capital grants and contributions obtained from other sources, and \$19,642,743 from general revenues available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$23,737,452.
6. As reflected in the Statement of Activities, the current fiscal year operations contributed to increase in the Net Position figure by \$2,630,770.

## **FINANCIAL HIGHLIGHTS (CONTINUED)**

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$3,426,514.
8. At the end of the current fiscal year, the Municipality's general fund deficit amounted to \$3,905,484 compared to a fund deficit of \$3,382,489 in the prior fiscal year 2013-2014.
9. The actual General Fund budgetary activities resulted in an unfavorable balance of \$725,809.

## **FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

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

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

## **FINANCIAL STATEMENTS COMPONENTS**

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

The Statement of Net Position reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

## **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.

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.

## **GOVERNMENT – WIDE FINANCIAL STATEMENTS**

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 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.

## **FUND FINANCIAL STATEMENTS**

The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. The Municipality has only one kind of fund which is the governmental fund.

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, 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) 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 demonstrated 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.

**INFRASTRUCTURE ASSETS (CONTINUED)**

According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE**

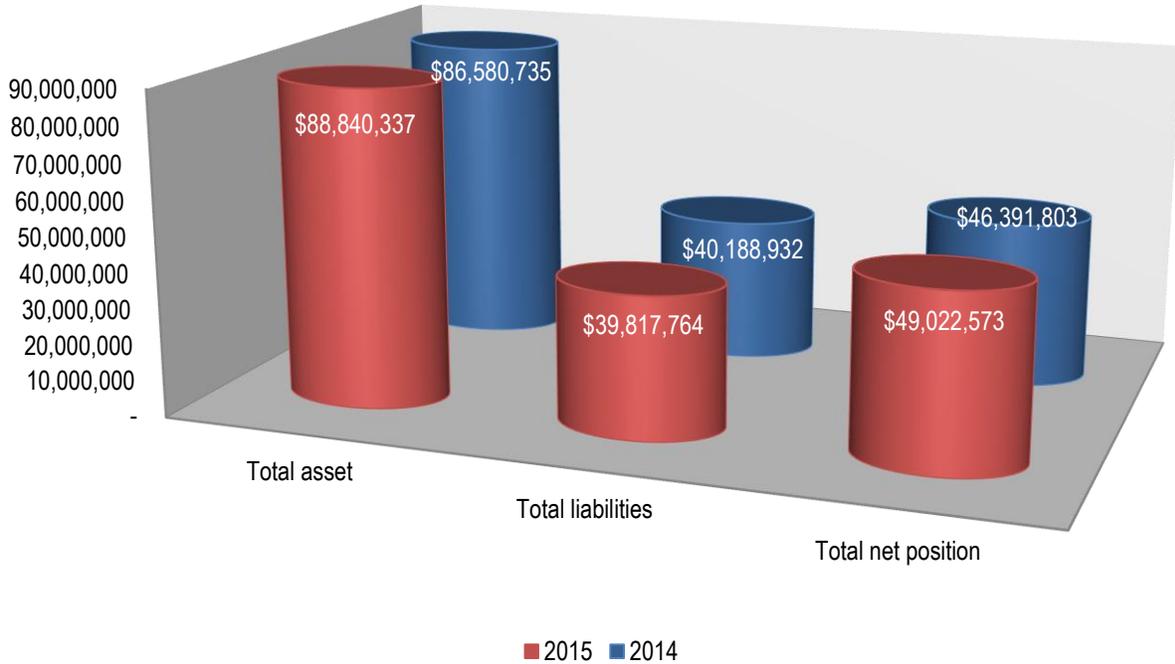
**Net Position**

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Rio Grande**, primary government assets exceeded total liabilities by \$49,022,573 at the end of 2015, as compared with \$46,391,803, which reflect an increase of \$2,630,770 over previous fiscal year. The following condensed Statement of Net Position of the Primary Government shows on a comparative basis the most important components of the \$2,630,770 increase reflected in the Net Position figure.

**Condensed Statement of Net Position**

	<u>2015</u>	<u>2014, as restated</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 11,190,745	\$ 8,607,422	\$ 2,583,323	30%
Capital assets	77,649,592	77,973,313	(323,721)	(0.4%)
Total assets	<u>88,840,337</u>	<u>86,580,735</u>	<u>2,259,602</u>	2.6%
Current and other liabilities	5,777,270	5,732,289	44,981	0.7%
Long-term liabilities	34,040,494	34,456,643	(416,149)	(1.2%)
Total liabilities	<u>39,817,764</u>	<u>40,188,932</u>	<u>(371,168)</u>	(0.9%)
Invested in capital assets, net of related debt	56,945,209	53,581,670	3,363,539	6%
Restricted	7,374,369	8,267,902	(893,533)	(11%)
Unrestricted deficit	(15,297,005)	(15,457,769)	160,764	1%
<b>Total Net Position</b>	<u><u>\$ 49,022,573</u></u>	<u><u>\$ 46,391,803</u></u>	<u><u>\$ 2,630,770</u></u>	5%

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



**Changes in Net Position**

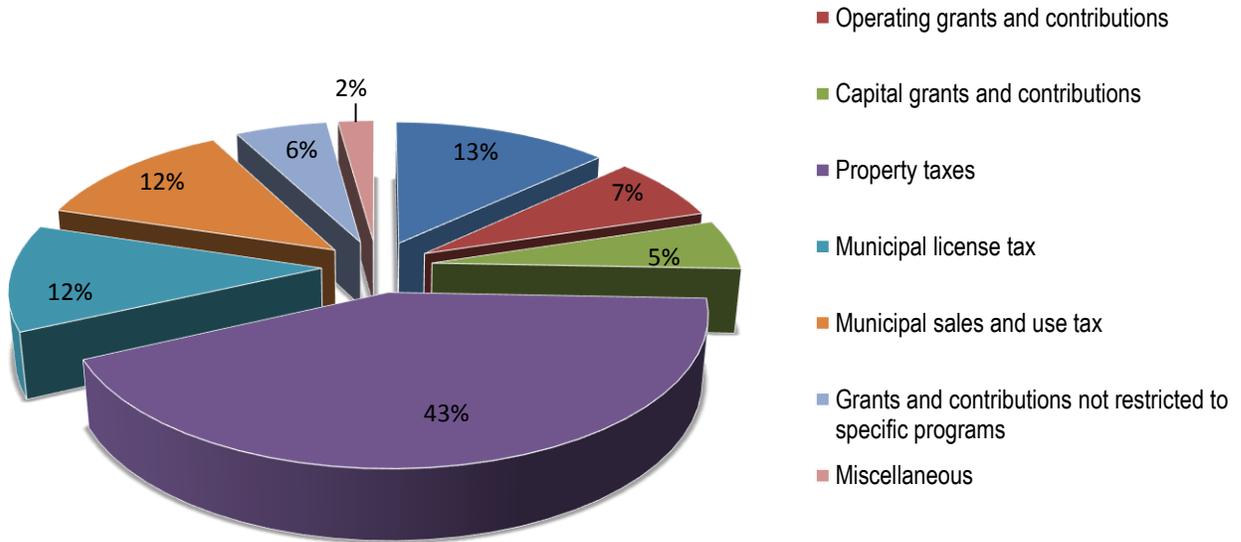
The Municipality's Net Position increased by \$2,630,770. Approximately sixty-six percent (66%) of the Municipality's total revenue came from taxes, while eighteen percent (18%) resulted from grants and contributions, including federal aid. Charges for Services and Interest and Investment earnings provided thirteen percent (13%) and miscellaneous revenues provided two percent (2%) of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, culture and recreation, and public safety. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2014, as restated, and 2015. Such analysis helps the reader to evaluate the Municipal administration performance in the administration of its current financial operations.

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

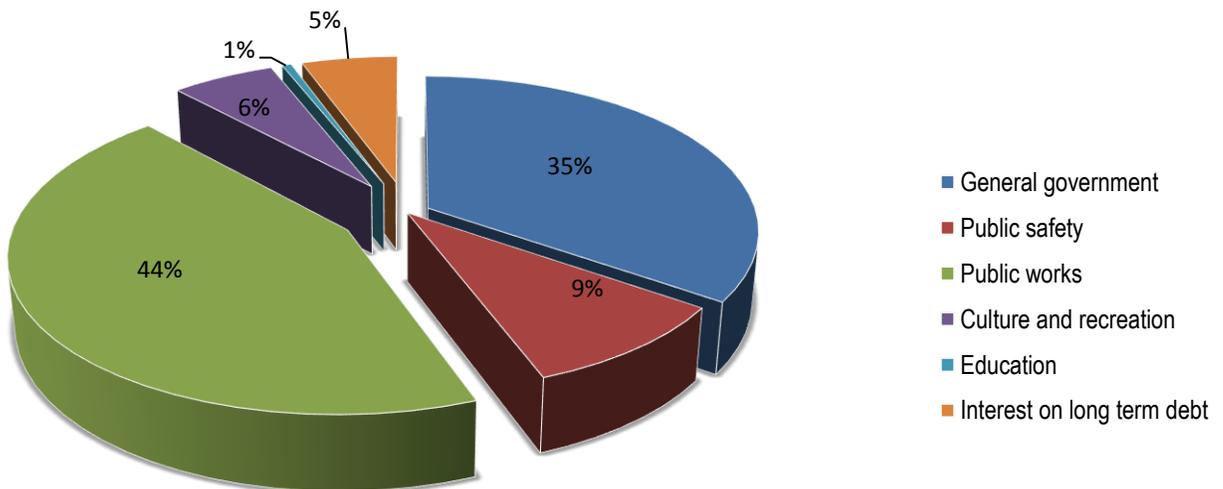
<b>Condensed Statement of Activities</b>	<b>2015</b>	<b>2014, as restated</b>	<b>Change</b>	<b>%</b>
Program Revenues:				
Charge for services	\$ 3,434,259	\$ 45,303	\$ 3,388,956	7,438%
Operating grants and contributions	1,861,200	3,045,519	(1,184,319)	(38%)
Capital grants and contributions	1,430,020	4,660,176	(3,230,156)	(69%)
General revenues:				
Property taxes	11,166,364	12,494,153	(1,327,789)	(10%)
Municipal license tax	3,069,808	3,667,176	(597,368)	(16%)
Municipal sales and use tax	3,273,331	2,606,437	666,894	25%
Grants and contributions not restricted to specific programs	1,459,470	2,509,325	(1,049,855)	(41%)
Interest and investment earnings	105,888	96,862	9,026	9%
Miscellaneous	567,882	560,274	7,608	1%
Total revenues	<u>26,368,222</u>	<u>29,685,225</u>	<u>(3,317,003)</u>	<u>(11%)</u>
Expenses				
General government	8,237,013	9,252,216	(1,015,203)	(10%)
Public safety	2,253,976	2,867,590	(613,614)	(21%)
Public works	10,425,816	4,876,142	5,549,674	113%
Health and welfare	4,329	3,676,356	(3,672,027)	(99%)
Culture and recreation	1,393,505	152,229	1,241,276	815%
Economic development	-	232,257	(232,257)	(100%)
Community development	-	925,163	(925,163)	(100%)
Education	124,613	198,126	(73,513)	(37%)
Interest on long-term debt	1,298,200	1,381,894	(83,694)	(6%)
Total expenses	<u>23,737,452</u>	<u>23,561,973</u>	<u>175,479</u>	<u>0.7%</u>
Change in Net Position	2,630,770	6,123,252	(3,492,482)	(57%)
Net Position, beginning of year	46,391,803	40,268,551	6,123,252	15%
Net Position, end of year	<u>\$ 49,022,573</u>	<u>\$ 46,391,803</u>	<u>\$ 2,630,770</u>	<u>5.6%</u>

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

**Revenues 2015**



**Expenses 2015**



## **FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS**

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

### **Governmental Funds**

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, 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 amounting to \$3,426,514, which represents an increase of \$1,237,143 when compared with the prior year, as restated. Out of the indicated balance, \$171,879 were classified as nonspendable; \$7,616,986 were classified as restricted for the following purposes: (1) \$3,531,200 for debt service payments; 2) \$3,781,218 to pay for capital projects; 3) \$304,568 for other purposes.

As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of (\$4,118,356). The Special Revenue Fund-Other Federal Grants fund, also reflects an unassigned fund deficit of (\$243,995).

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2014-2015, the Municipal Legislature approved revisions to the operational budget which resulted in further increases in revenues and current expenditures which represented transactions detected during the normal course of business. Despite these budgets readjustments and as previously stated, as reflected in exhibit, Budgetary Comparison Schedule- General Fund attached hereto, budgetary analysis reflected \$725,809 of total operating expenses over current revenues.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2015, amounted to \$116,334,035 which upon deduction of accumulated depreciation in the amount of \$36,684,443 produced a net book value attributable to capital assets in the amount of \$77,649,592. Said investment includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total decrease in the Municipality's investment in capital assets for the current fiscal year represented approximately less than one percentage (0.4%) of net book value. Depreciation charges for the year totaled \$2,646,151.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has \$2,332,073 of proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Capital Project Fund- Local, and State Grants.

### **Debt Administration**

The Puerto Rico Legislative Assembly 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" as defined in Act No. 64. Such Act requires a Municipality must have sufficient "payment capacity" to incur additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

The Municipality is required under prevailing applicable law to levy a 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. In the particular case of the Municipality of Río Grande, 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 and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available, but the revenue can be also predictable.

The Municipality's officials considered certain factors when establishing the fiscal year's 2015-2016 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2015 stands at 10.9%, and the Commonwealth rate stands at 12.6%.

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

## **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 847, Río Grande, Puerto Rico 00745, Telephone (787) 887-2370.



Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
General government	\$ 8,237,013	\$ 3,193,924	\$ -	\$ -	\$ (5,043,089)
Public safety	2,253,976	-	-	-	(2,253,976)
Public works	10,425,816	166,000	43,453	1,430,020	(8,786,343)
Health and welfare and community development	4,329	25,155	1,646,755	-	1,667,581
Culture and recreation	1,393,505	49,180	65,568	-	(1,278,757)
Education	124,613	-	105,424	-	(19,189)
Interest on long-term debt	1,298,200	-	-	-	(1,298,200)
<b>Total governmental activities</b>	<b>\$ 23,737,452</b>	<b>\$ 3,434,259</b>	<b>\$ 1,861,200</b>	<b>\$ 1,430,020</b>	<b>\$ (17,011,973)</b>
General revenues:					
					11,166,364
Property taxes					3,069,808
Municipal license tax					3,273,331
Municipal sales and use tax					1,459,470
Grants and contributions not restricted to specific programs					105,888
Interest					567,882
Miscellaneous					
<b>Total general revenues</b>					<b>19,642,743</b>
Change in net position					2,630,770
Net position - beginning, as restated					46,391,803
Net position - ending					<b>\$ 49,022,573</b>

	<b>General Fund</b>	<b>Special Revenue Fund Other Federal Grants</b>	<b>Capital Projects Fund - State &amp; Local Grants</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 123,082	\$ 957,149	\$ -	\$ 502,192	\$ 1,582,423
Cash with fiscal agent	-	-	2,332,073	5,837,598	2,759	8,172,430
Accounts receivable:						
Property tax	108,150	-	-	-	-	108,150
Others	-	-	1,734	-	-	1,734
Advances from other funds	171,879	-	-	-	-	171,879
Due from:						
Commonwealth Government	66,063	892,579	-	271,626	148,364	1,378,632
Other funds	937,723	-	693,320	-	-	1,631,043
<b>Total assets</b>	<b>1,283,815</b>	<b>1,015,661</b>	<b>3,984,276</b>	<b>6,109,224</b>	<b>653,315</b>	<b>13,046,291</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>						
<b>Liabilities</b>						
Bank overdraft	52,624	-	-	-	-	52,624
Accounts payable and accrued liabilities	1,546,132	82,244	183,128	-	7,422	1,818,926
Matured bonds and notes payable	-	-	-	1,932,000	-	1,932,000
Matured interest payable	-	-	-	646,024	-	646,024
Due to other governmental entities	1,121,103	-	-	-	-	1,121,103
Advances from other funds	-	171,879	-	-	-	171,879
Due to other funds	693,320	701,624	19,930	-	216,169	1,631,043
Unearned revenues:						
Municipal license tax	1,601,907	-	-	-	-	1,601,907
Federal grant revenues	-	60,474	-	-	17,785	78,259
<b>Total liabilities</b>	<b>5,015,086</b>	<b>1,016,221</b>	<b>203,058</b>	<b>2,578,024</b>	<b>241,376</b>	<b>9,053,765</b>
<b>Deferred Inflows of Resources</b>						
Unavailable revenues-						
Commonwealth Government	174,213	-	-	-	148,364	322,577
Unavailable revenue- Federal grants	-	243,435	-	-	-	243,435
<b>Total deferred inflows of resources</b>	<b>174,213</b>	<b>243,435</b>	<b>-</b>	<b>-</b>	<b>148,364</b>	<b>566,012</b>
<b>Fund balances</b>						
Nonspendable	171,879	-	-	-	-	171,879
Restricted	40,993	-	3,781,218	3,531,200	263,575	7,616,986
Unassigned	(4,118,356)	(243,995)	-	-	-	(4,362,351)
<b>Total fund balances</b>	<b>(3,905,484)</b>	<b>(243,995)</b>	<b>3,781,218</b>	<b>3,531,200</b>	<b>263,575</b>	<b>3,426,514</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,283,815</b>	<b>\$ 1,015,661</b>	<b>\$ 3,984,276</b>	<b>\$ 6,109,224</b>	<b>\$ 653,315</b>	<b>\$ 13,046,291</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

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

	General Fund	Special Revenue Fund Other Federal Grants	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property taxes	\$ 8,065,140	\$ -	\$ -	\$ 3,101,224	\$ -	\$ 11,166,364
Municipal license taxes	3,069,808	-	-	-	-	3,069,808
Municipal sales and use tax	2,578,739	-	-	694,592	-	3,273,331
Licenses, permits and other local taxes	716,767	-	-	-	-	716,767
Intergovernmental	3,320,220	-	1,430,020	-	418,540	5,168,780
Fines and forfeitures	7,062	-	-	-	-	7,062
Rent of property	59,169	-	-	-	-	59,169
Interest	105,888	-	-	-	-	105,888
Federal grants	-	1,233,587	-	-	627,613	1,861,200
Miscellaneous	487,562	-	-	-	21,151	508,713
<b>Total revenues</b>	<b>\$ 18,410,355</b>	<b>\$ 1,233,587</b>	<b>\$ 1,430,020</b>	<b>\$ 3,795,816</b>	<b>\$ 1,067,304</b>	<b>\$ 25,937,082</b>
<b>Expenditures</b>						
Current:						
General government	11,857,135	-	-	-	600	11,857,735
Public safety	2,140,190	43,459	-	-	-	2,183,649
Public works	3,047,923	-	1,263,219	-	220,435	4,531,577
Health and welfare	1,544,073	397,531	27	-	650,320	2,591,951
Culture and recreation	721,877	65,569	20,122	-	19,557	827,125
Economic development	-	-	-	-	175,961	175,961
Community development	-	638,996	-	-	-	638,996
Education	-	105,424	-	-	18,639	124,063
Debt service:						
Principal	-	-	-	1,972,000	-	1,972,000
Interest	-	-	-	1,316,882	-	1,316,882
<b>Total expenditures</b>	<b>19,311,198</b>	<b>1,250,979</b>	<b>1,283,368</b>	<b>3,288,882</b>	<b>1,085,512</b>	<b>26,219,939</b>
Excess (deficiency) of revenues over (under) expenditures	(900,843)	(17,392)	146,652	506,934	(18,208)	(282,857)
<b>Other financing sources (uses)</b>						
Transfers in	450,974	-	-	73,126	-	524,100
Transfers out	(73,126)	-	-	(450,974)	-	(524,100)
Long term debt issued	-	-	1,520,000	-	-	1,520,000
<b>Total other financing sources (uses)</b>	<b>377,848</b>	<b>-</b>	<b>1,520,000</b>	<b>(377,848)</b>	<b>-</b>	<b>1,520,000</b>
<b>Net change in fund balances</b>	<b>(522,995)</b>	<b>(17,392)</b>	<b>1,666,652</b>	<b>129,086</b>	<b>(18,208)</b>	<b>1,237,143</b>
Fund balance, beginning, as restated	(3,382,489)	(226,603)	2,114,566	3,402,114	281,783	2,189,371
<b>Fund balance, ending</b>	<b>\$ (3,905,484)</b>	<b>\$ (243,995)</b>	<b>\$ 3,781,218</b>	<b>\$ 3,531,200</b>	<b>\$ 263,575</b>	<b>\$ 3,426,514</b>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF RIO GRANDE**

**Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position  
For the Year Ended June 30, 2015**

**Total Fund Balances - Governmental Funds** \$ 3,426,514

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

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

Non-depreciable capital assets	\$ 28,695,094	
Depreciable capital assets	87,638,941	
Accumulated depreciation	<u>(38,684,443)</u>	
Total Capital Assets		77,649,592

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

Due from Commonwealth Government:		
P.R. Department of Labor - Law Num. 52	112,916	
Treasury Department-Education	35,448	
Treasury Department-Property tax	108,150	
Treasury Department-Christmas bonus	66,063	
Child Care program	113,472	
Even Start program	84,400	
Community Development Block Grant program	37,327	
Other federal grants	<u>8,236</u>	
		566,012

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

General obligation bonds and notes	(28,694,000)	
Property Tax - Treasury Department	(160,987)	
Property tax - Law 146	(691,065)	
Compensated Absences	(2,178,553)	
Christmas bonus-Treasury Department	(284,389)	
Claims and judgments	<u>(99,500)</u>	
Total Long-Term Liabilities		(32,108,494)

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

Accounts payable	<u>(511,051)</u>	(511,051)
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**Total Net Position of Governmental Activities** \$ 49,022,573

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,237,143

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

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

Expenditures for capital assets	\$ 9,553,317	
Less: current-year depreciation	(2,646,151)	6,907,166

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

P.R. Department of Labor - Law Num. 52	112,916	
Treasury Department-Education	35,448	
Treasury Department-Property tax	108,150	
Treasury Department-Christmas bonus	66,063	
Child Care program	113,472	
Even Start program	84,400	
Community Development Block Grant program	37,327	
Other federal grants	8,236	566,012

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

P.R. Department of Labor - Law Num. 52	(115,160)	
Federal grants	(19,712)	(134,872)

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

(7,230,887)

Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:

Matured bonds and notes principal payments (net change)		149,000
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	1,823,000	
Other long-term liabilities	613,761	2,436,761

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

General obligation bond issuance	(1,520,000)	
Christmas bonus	(284,389)	
Compensated absences	(256,638)	
Accrued interest-net change	18,682	(2,042,345)

Accounts payable change is reported in the Government-Wide Statement of Activities and Changes in Net Position but not reported as in the Governmental Funds because they do not require the use of current financial resources. This is the amount reported in the current period.

742,792

**Change in Net Position of Governmental Activities**

**\$ 2,630,770**

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Río Grande** (the Municipality) was founded on the year 1840. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen member Municipal Legislature who are elected for a four-year term.

The Municipality provides a full range of services for its citizens. These services include public safety, public works, culture and recreation, health and welfare, community development, education, and other miscellaneous services.

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

### A. Financial reporting entity

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

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

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

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

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

### A. Financial reporting entity (continued)

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

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

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

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

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

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

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

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

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

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

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

#### **Basic financial statements**

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

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

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

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

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

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

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

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

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

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

The Municipality reports the following major governmental funds:

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

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

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

**Special Revenue Funds - State and Federal Grants** – is a major governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

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

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

The other governmental funds of the Municipality account for grants and other resources whose use is restricted to a particular purpose.

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

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

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

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

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

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

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

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

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

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

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

#### Notes to financial statements

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

#### Required Supplementary Information (RSI)

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

### C. Financial reporting presentation

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

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

**Special Revenue Funds** – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

**Capital Projects Fund** – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the

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

### C. Financial reporting presentation (continued)

other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

### D. Deposits and investments

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

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

### E. Restricted assets

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

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

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

### F. Receivables and due from governmental entities

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

### G. Interfund receivables and payables

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

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

### H. Inventories

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

### I. Capital assets

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

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

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

I. Capital assets (continued)

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	30 to 50 years
Infrastructure	20 to 50 years
Works of art	10 years
Vehicles	8 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

J. Deferred outflows/inflows of resources

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

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

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

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

### K. Long-term obligations

Long-term debt and other long-term obligations, which are reported as liabilities in the governmental activities column in the Statement of Net Position, include general and special obligation bonds and notes, liabilities for compensated absences, claims and judgments, landfill closure and post-closure costs and long-term liabilities to other governmental entities.

Related bond issuance costs, whenever rise, are reported as current outflows of resources in the Statement of Activities, as required by current standards. Governmental fund types recognize bond issuance costs as expenditures during the current period. Those issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures in the appropriate fund.

### L. Compensated absences

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

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

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

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

### M. Claims and judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund when they matured (generally, when payment is due). The accompanying government-wide financial statements include an amount estimated as a contingent liability for liabilities as incurred.

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

### N. Net position

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

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

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

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

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

### O. Net position flow assumption

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

### P. Fund balances

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

<b>Nonspendable:</b>	Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
<b>Restricted:</b>	Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
<b>Committed:</b>	Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government’s highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action it employed to commit those amounts.

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

### P. Fund balances (continued)

**Assigned:** Amounts that are constrained by the Municipality's intent to be used for specific purposes, but are neither restricted nor committed. In distinction to committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, (both the Mayor and the Municipal Legislature). It is the Municipality's policy that intent can be expressed by the Mayor, the Finance Director or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances.

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

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

### Q. Fund balance flow assumptions

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

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

### R. Accounting for pension costs

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

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

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

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

### S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

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

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

### T. Risk financing

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances issued by the CRIM.

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

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

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

### U. Use of Estimates

The preparation of the basic financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

### V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 72 “Fair Value Measurement and Application.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **GASB Statement No. 73 “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 “Financial Reporting for Postemployment Benefit Plans Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
4. **GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).
5. **GASB Statement No. 76 “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

### W. Subsequent events

Subsequent events have been evaluated through March 7, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

## 2. CASH AND CASH EQUIVALENTS

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

The Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant. Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

**Interest rate risk** - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investment portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to three months or less, and (3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** - In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized.

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

## 2. CASH AND CASH EQUIVALENTS(CONTINUED)

**Foreign exchange risk** - The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015. Under Commonwealth of Puerto Rico statutes public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

**Deposits** - The Municipality's bank balances in commercial banks of \$123,082 in the special revenue fund-other federal grants, \$957,149 in the capital projects funds – state and local grants and \$502,192 in the other governmental funds were fully collateralized at June 30, 2015.

The deposits at GDB of \$5,837,598 in the debt service fund, \$2,332,073 in the capital projects fund – state and local grants and \$2,759 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

## 3. RECEIVABLES

A. **Municipal License Tax**- The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$1,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

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

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

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

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

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

	<u>Commonwealth Government</u>
<b><u>General Fund:</u></b>	
Treasury Department-Property tax	\$ 108,150
Treasury Department-Christmas bonus	66,063
<b><u>Special Revenue Fund Other Federal Grants</u></b>	
Child Care and Development Block Grant	167,737
Community Development Block Grant – Entitlement Grant	60,566
Community Services Block Grant	75,361
Even Start – State Educational Agencies	84,400
Special Program for Aging – Title III, Part B-ARRA	15,393
Community Oriented Policing Services	25,612
Federal Emergency Management Administration – Storm Irene	286,358
Energy Efficiency Conservation Grant-ARRA	8,236
Special Program for Aging – Title III, Part B	25,882
Others	143,034
<b><u>Debt Service Fund</u></b>	
Municipal Revenue Collection Center “CRIM”	271,626
<b><u>Other Governmental Funds</u></b>	
Department of Education-Compensatory Education	35,448
Department of Labor and Human Resources-Law 52	112,916
<b>Total</b>	<b><u><u>\$ 1,486,782</u></u></b>

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

<b><u>General Fund</u></b>	<u>Amount</u>
Puerto Rico Telephone Company	\$ 14,473
Puerto Rico Aqueduct and Sewer Company	602,508
General Services Administration	2,012
Retirement System Administration	502,110
<b>Total</b>	<b><u><u>\$ 1,121,103</u></u></b>

**5. INTERFUND TRANSACTIONS**

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

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

**A. Due from/to other fund and advances from/to other fund:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund – Other Federal Grant	Advances	\$ 171,879
Capital Projects Fund – State and Local Grants	General Fund	Reimbursable expenditures	693,320
General Fund	Special Revenue Fund – Other Federal Grant	Payroll and related accruals paid and reimbursed expenditures	701,624
General Fund	Capital Projects Fund – State and Local Grants	Payroll and related accruals paid and reimbursed expenditures	19,930
General Fund	Other governmental funds	Payroll and related accruals paid and not reimbursed	216,169
<b>Total</b>			<b>\$ 1,802,922</b>

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

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service Fund	General Fund	Transfer of funds for capital outlays	\$ 450,974
General Fund	Debt Service Fund	Transfer of funds for debt service	73,126
<b>Total</b>			<b>\$ 524,100</b>

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

Description	General Fund	Special Revenue Fund – Other Federal Grants	Capital Projects Fund – State & Local Grants	Other Governmental Fund	Total
Accounts payable	\$ 1,293,977	\$ 82,244	\$ 183,128	\$ 7,422	\$ 1,566,771
Accrued liabilities	252,155	-	-	-	252,155
<b>Total</b>	<b>\$ 1,546,132</b>	<b>\$ 82,244</b>	<b>\$ 183,128</b>	<b>\$ 7,422</b>	<b>\$ 1,818,926</b>

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

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

	Commonwealth Government	Federal Government
<b>Major fund – Special revenue fund:</b>		
PR Treasury Department-Property tax	\$ 108,150	\$ -
PR Treasury Department-Christmas bonus	66,063	-
<b>Major fund – Special revenue fund:</b>		
Housing and Urban Development	-	37,327
Child Care Development Block Grant	-	113,472
Even Start Program	-	84,400
Energy Efficiency and Conservation Block Grant Program (EECBG)	-	8,236
<b>Other governmental funds:</b>		
Department of Education-Complementary Education	35,448	-
P.R. Department of Labor - Law Num. 52	112,916	-
	<b>\$ 322,577</b>	<b>\$ 243,435</b>

**7. UNEARNED REVENUES**

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

	Amount
<b>Major fund – General fund:</b>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 1,601,907
<b>Special Revenue Fund – State &amp; Federal Grants:</b>	
Wildlife Restoration	16,223
Housing Opportunities for Persons with AIDS	36,964
Others	7,287
<b>Other governmental funds:</b>	
Family Self-sufficiency	17,785
<b>Total</b>	<b>\$ 1,680,166</b>

**8. FUND BALANCE (DEFICIT)**

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

<b>Fund Balance (Deficit)</b>	<b>General Fund</b>	<b>Special Revenue Fund Other Federal Grants</b>	<b>Capital Projects Fund-State &amp; Local Grants</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>Nonspendable:</b>						
Interfund loans receivable	\$ 171,879	\$ -	\$ -	\$ -	\$ -	\$ 171,879
<b>Restricted for:</b>						
General government	40,993	-	-	-	4,692	45,685
Health and welfare	-	-	-	-	4,870	4,870
Capital projects	-	-	3,781,218	-	-	3,781,218
Culture and recreation	-	-	-	-	311,334	311,334
Economic development	-	-	-	-	(112,916)	(112,916)
Public works	-	-	-	-	55,595	55,595
Debt service	-	-	-	3,531,200	-	3,531,200
<b>Unassigned</b>	<b>(4,118,356)</b>	<b>(243,995)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,362,351)</b>
<b>Total Fund Balance</b>	<b>\$ (3,905,484)</b>	<b>\$ (243,995)</b>	<b>\$ 3,781,218</b>	<b>\$ 3,531,200</b>	<b>\$ 263,575</b>	<b>\$ 3,426,514</b>

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**9. CAPITAL ASSETS**

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

<b><u>Governmental Activities:</u></b>	<b><u>Balance</u></b>			<b><u>Balance</u></b>
	<b><u>July 1, 2014</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>June 30, 2015</u></b>
<b>Capital asset, not being depreciated:</b>				
Construction in progress	\$ 15,997,425	\$ 1,294,004	\$ (7,230,887)	\$ 10,060,552
Land	18,629,634	4,918	-	18,634,552
<b>Total capital assets not being depreciated</b>	<b>34,627,059</b>	<b>1,298,922</b>	<b>(7,230,877)</b>	<b>28,695,094</b>
<b>Capital assets, being depreciated:</b>				
Buildings & Buildings Improvements	37,930,323	2,072,452	-	40,002,775
Infrastructure	15,794,573	1,912,914	-	17,707,487
Infrastructure Improvements	15,954,450	4,216,866	-	20,171,316
Equipment	3,290,334	46,840	-	3,337,174
Furnishing	146,313	2,824	-	149,137
Work of Art	4,625	-	-	4,625
Computers	210,967	2,499	-	213,466
Vehicles	6,052,961	-	-	6,052,961
<b>Total capital assets being depreciated</b>	<b>79,384,546</b>	<b>8,254,395</b>	<b>-</b>	<b>87,638,941</b>
<b>Less accumulated depreciation for:</b>				
Buildings & Buildings improvements	(10,309,622)	(1,052,449)	-	(11,362,071)
Infrastructure	(8,524,585)	(576,640)	-	(9,101,225)
Infrastructure Improvements	(8,067,978)	(828,942)	-	(8,896,920)
Equipment	(2,908,543)	(74,475)	-	(2,983,018)
Furnishing	(121,833)	(9,265)	-	(131,098)
Work of Art	(3,504)	(463)	-	(3,967)
Computers	(188,094)	(12,016)	-	(200,110)
Vehicles	(5,914,133)	(91,901)	-	(6,006,034)
<b>Total accumulated depreciation</b>	<b>(36,038,292)</b>	<b>(2,646,151)</b>	<b>-</b>	<b>(38,684,443)</b>
<b>Total capital assets being depreciated, net</b>	<b>43,346,254</b>	<b>5,608,244</b>	<b>-</b>	<b>48,954,498</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 77,973,313</b>	<b>\$ 6,907,166</b>	<b>\$ (7,230,887)</b>	<b>\$ 77,649,592</b>

**9. CAPITAL ASSETS (CONTINUED)**

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

<u>Governmental activities:</u>	<u>Amount</u>
Community Development	\$ 419,731
Culture and Recreation	520,739
Economic Development	1,938
Education	550
General Government	607,830
Health and Welfare	48,026
Public Safety	70,522
Public Work	976,815
	<hr/>
Total depreciation expense-governmental activities	<u>\$2,646,151</u>

**10. LONG-TERM LIABILITIES**

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

<u>Description</u>	<u>Beginning Balance, as restated</u>	<u>Borrowings or Additions</u>	<u>Payments or Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable	\$ 25,639,000	\$ 1,520,000	\$ (1,393,000)	\$ 25,766,000	\$ 1,543,000
Notes payable	5,330,000	-	(470,000)	4,860,000	505,000
Property Tax-Treasury Department	160,987	-	-	160,987	160,987
Compensated absences	2,178,332	256,638	(256,417)	2,178,553	370,000
Claims and judgments	121,948	-	(22,448)	99,500	99,500
Christmas bonus	294,245	284,389	(294,245)	284,389	284,389
Property Tax- Law 146	731,716	-	(40,651)	691,065	40,651
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$ 34,456,228</u>	<u>\$ 2,061,027</u>	<u>\$ (2,476,761)</u>	<u>\$ 34,040,494</u>	<u>\$ 3,003,527</u>

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

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

Description	Balance at June 30, 2015
1995 Public improvement bond for infrastructure's construction with an original amount of \$1,187,000 due in annual installments of \$61,000 to \$91,000, through January 1, 2019, with interest of 4.5%	\$ 334,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,045,000 due in annual installments of \$45,000 to \$90,000 through January 1, 2020, with interest ranging from 4.70% to 6.63%	450,000
1996 Public improvement bond for infrastructure's construction with an original amount of \$1,715,000 due in installments of \$75,000 to \$150,000, through July 1, 2020, with interest ranging from 4.70% to 6.63%	750,000
2002 General obligation bond for payment of operational debts with an original amount of \$5,105,000 due in installments of \$140,000 to \$445,000, through July 1, 2026, with interest ranging from 5% to 8%	3,605,000
2002 Public improvement bond for infrastructure's construction with an original amount of \$1,400,000 due in installments of \$105,000 to \$155,000, through July 1, 2016, with interest ranging from 2.70% to 4.91%	295,000
2003 General obligation bond for infrastructure's construction with an original amount of \$4,746,000 due in installments of \$133,000 to \$366,000, through July 1, 2027, with interest ranging from 1.48% to 6.50%	3,347,000
2003 General obligation bond for infrastructure's construction and/or the acquisition of a capital asset with an original amount of \$1,175,000 due in installments of \$35,000 to \$95,000, through July 1, 2027, with interest ranging from 1.48% to 6.50%	795,000
2008 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$985,000 due in installments of \$45,000 to \$105,000, through July 1, 2023, with interest ranging from 1.50% to 7.50%	655,000
2009 General obligation bond for land acquisition with an original amount of \$700,000 due in installments of \$10,000 to \$60,000, through July 1, 2033, with interest ranging from 4.75% to 7.50%	630,000
2010 General obligation bond for infrastructure's construction and or the acquisition of a capital asset with an original amount of \$6,995,000 due in installments of \$170,000 to \$640,000, through July 1, 2030, with interest ranging from 4.75% to 7.50%	6,070,000
2012 Special obligation bond for operational debts payment with an original amount of \$870,000 due in installments of \$10,000 to \$75,000, through July 1, 2035, with interest ranging from 6.50% to 7.50%	825,000
2012 General obligation bond for waste disposal debt payment with an original amount of \$1,525,000 due in installments of \$175,000 to \$270,000, through July 1, 2017, with interest ranging from 6.00% to 7.50%	750,000
2012 General obligation bond for capital improvement debt payment with an original amount of \$3,550,000 due in installments of \$90,000 to \$335,000, through July 1, 2030, with interest ranging from 6.00% to 7.50%	3,260,000
2013 General obligation bond for waste disposal and recycling debt payment with an original amount of \$2,555,000 due in installments of \$35,000 to \$215,000, through July 1, 2037, with interest ranging from 6.00% to 7.50%	2,480,000
2015 General obligation bond for improvement for municipal cemetery with an original amount of \$1,520,000 due in installments of \$55,000 to \$160,000, through July 1, 2029, with interest ranging from 6.00% to 7.50%	1,520,000
<b>Total</b>	<b>\$ 25,766,000</b>

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

These bonds, except the 2003 Series \$1,175,000 bond, are payable from the special ad valorem property tax of 3.5% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2003 Series \$1,175,000 bond is payable with General Fund resources. The Series 2012, amounting 870,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2016	\$ 1,553,000	\$ 1,472,293
2017	1,679,000	1,663,455
2018	1,636,000	1,426,658
2019	1,478,000	1,442,464
2020	1,496,000	1,330,027
2021-2025	7,848,000	4,945,200
2026-2030	7,806,000	1,898,205
2031-2035	1,595,000	447,375
2036-2040	<u>675,000</u>	<u>47,250</u>
<b>Total</b>	<b><u>\$ 25,766,000</u></b>	<b><u>\$ 14,672,927</u></b>

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

<b>Type of notes</b>	<b><u>Maturity Date</u></b>	<b><u>Original Amount</u></b>	<b><u>Range of Interest rates</u></b>	<b><u>Balance at June 30, 2015</u></b>
2009-Series	7/1/2028	4,570,000	5.00% to 7.50%	3,810,000
2010-Series	7/1/2016	320,000	6.00% to 7.50%	110,000
2012-Series	7/1/2017	1,920,000	6.00% to 7.50%	<u>940,000</u>
<b>Total notes payable</b>				<b><u>\$ 4,860,000</u></b>

The Series 2009, amounting 4,570,000, is payable with the revenues generated from the collection of the .2% of the municipal sales and use taxes Redemption Fund.

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 505,000	\$ 273,459
2017	550,000	285,375
2018	525,000	246,000
2019	200,000	231,000
2020	220,000	214,500
2021-2025	1,355,000	781,875
2026-2030	<u>1,505,000</u>	<u>180,000</u>
<b>Total</b>	<u>\$ 4,860,000</u>	<u>\$ 2,212,209</u>

4. **Compensated absences-** The government-wide statement of net position includes \$1,121,342 of accrued sick leave benefits, and approximately \$1,057,211 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
5. **Property Taxes Debts-** These amounts represents the balance owed to the Treasury Department and to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015 as described in **Note 11**.
6. **Claims and Judgments** – represent the final settlement of legal cases paid subsequent to June 30, 2015. The awarded amount will be paid with unrestricted funds.
7. **Christmas bonus** - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$284,389.

**11. PROPERTY TAXES**

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

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1. The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections.

## 11. PROPERTY TAXES (CONTINUED)

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-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that collections exceeded advances by \$108,150.

On January 26, 2000, Public Law No. 42 was enacted which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years.

Also, on October 11, 2002, Public Law No. 172 was enacted, to provide as an option for the Municipalities to include the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections for the fiscal year ended June 30, 2001 with the loan authorized through Public Law No. 42 enacted on January 26, 2000.

On June 26 1997, Public Law No. 21 was enacted authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed property taxes from 1974 to 1996. Such property tax receivables were purchased by the Public Financing Corporation, a subsidiary of the Government Development Bank of Puerto Rico (GDB) using the proceeds of a bond issuance executed for such purposes. Said Law imposed the CRIM the obligation to replace uncollectible property tax receivables with any valid property tax receivable or equivalent in money. Subsequent to the approval of the Law and to the sale transaction, it was detected that a substantial percentage of the receivables sold were uncollectible.

In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities through a 30 year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law.

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

## 11. PROPERTY TAXES (CONTINUED)

In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$ 50,000 of the assessed value to retailers having annual net sales of less than \$150,000. The annual tax rate is 10.53% for real property and 7.03% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6% and 4%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 2.0% and 3.50%, respectively, represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

## 12. SALES AND USE TAX

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

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

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

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

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

## 12. SALES AND USE TAXES (CONTINUED)

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

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

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

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

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

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

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

- .2% will be deposited in the Municipal Development Fund. Section 4 of the Act requires amounts deposited in the Municipal Development Fund of municipalities not covered by the Act to be redistributed to the municipalities covered by the Act,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay long-term debt through any financial institution (each semester the municipalities may transfer to their general fund the funds in excess of debt service requirements),

## 12. SALES AND USE TAXES (CONTINUED)

- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

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

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

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

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the **Municipality of Río Grande**, the implementation date was February 1, 2015. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

### 13. PENSION PLAN

#### General Information about the Pension Plan

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

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

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

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

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$772,087.

### 13. PENSION PLAN (CONTINUED)

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$183,837, of which \$34,469 (18%) was subsidized by the OMB.

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

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

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

### 14. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in **Note 13**, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$398,153, of which \$154,425 (38%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

## 15. RISK MANAGEMENT

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

## 16. COMMITMENTS AND CONTINGENCIES

### A. Federal grants:

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

### B. Claims and lawsuits:

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of \$99,500 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

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

**17. RESTATEMENT OF FUND BALANCE AND NET POSITION**

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

	Fund Financial Statements		Government- wide Financial Statement
	Special Revenue Fund-Other Federal Grants	Debt Service Fund	Net Position
<b>Total fund balances/ net position, at beginning of year, as previously reported</b>	<b>\$ 23,975</b>	<b>\$ 5,871,553</b>	<b>\$ 46,937,041</b>
<b>Correction of errors:</b>			
Understatement of matured bonds and interest payable	-	(2,469,439)	(2,469,439)
Overstatement in long term debt	-	-	2,469,024
Understatement of intergovernmental revenues	(250,578)	-	(250,578)
Understatement of Christmas bonus	-	-	(294,245)
<b>Fund balance/ net position, beginning as restated</b>	<b>\$ (226,603)</b>	<b>\$ 3,402,114</b>	<b>\$ 46,391,803</b>

**18. SUBSEQUENT EVENTS**

**Puerto Rico Fiscal and Economic Growth Plan**

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

**New Guidelines for the Calculation of the Contribution In Lieu of Taxes (“CELI”)**

On October 16, 2015, the Puerto Rico Commission of Energy (“CEPR”) approved the new guidelines for the energetic subsidy (contribution) received by the 78 municipalities of the Commonwealth from the Puerto Rico Electric Power Authority (PREPA) in lieu of the payment of municipal license taxes (“CELI”). These guidelines limit to the subsidy to be received by the municipalities, by establishing a maximum threshold amount of energy consumption charges that can be incurred by the municipalities. Any charges in excess of that maximum threshold will be paid by the municipalities based on the prevailing service rates in effect during the

## 18. SUBSEQUENT EVENTS (CONTINUED)

billing period. If the municipalities do not pay the amounts billed, they are subject to a possible service cancellation by the PREPA.

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

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

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary</u> <u>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>
<b>REVENUES:</b>				
Property taxes	\$ 8,065,140	\$ 8,065,140	\$ 8,065,140	\$ -
Municipal license tax	3,100,000	3,100,000	3,069,808	(30,192)
Licenses, permits and other local taxes	1,520,000	1,520,000	716,767	(803,233)
Intergovernmental	3,332,111	3,332,111	3,605,292	273,181
Fines and forfeitures	10,000	10,000	7,062	(2,938)
Interest	150,000	150,000	105,889	(44,111)
Miscellaneous	<u>1,067,436</u>	<u>1,067,436</u>	<u>546,732</u>	<u>(520,704)</u>
<b>Total revenues</b>	<u>17,244,687</u>	<u>17,244,687</u>	<u>16,116,690</u>	<u>(1,127,997)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	10,217,709	10,366,904	9,489,375	877,529
Public safety	2,532,084	2,269,324	2,137,921	131,403
Public works	1,676,672	1,844,122	2,953,773	(1,109,651)
Health and Welfare	1,855,718	1,797,894	1,362,327	435,567
Culture and recreation	771,118	776,732	717,591	59,141
Community development	<u>191,386</u>	<u>189,711</u>	<u>181,512</u>	<u>8,199</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>17,244,687</u>	<u>17,244,687</u>	<u>16,842,499</u>	<u>402,188</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (725,809)</u>	<u>\$ (725,809)</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,116,690
Differences-budget to USGAAP:				
Non-budgeted transfer in				450,974
Non-budgeted revenues				2,578,739
USGAAP adjustment to revenues				<u>(285,074)</u>
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 18,861,329</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 16,842,499
Differences-budget to USGAAP:				
Non-budgeted expenditures				2,083,851
Non-budgeted transfer out				73,126
Prior year encumbrances recorded as current year expenditures for USGAAP basis				(574,561)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>959,409</u>
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<u>\$ 19,384,324</u>

See Notes to Budgetary Comparison Schedule-General Fund

## 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>			
Pass-through the Commonwealth of Puerto Rico- Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>13,218</u>
<b>Total U.S. Department of Agriculture</b>			<b><u>13,218</u></b>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u></b>			
Direct Program:			
Community Development Block Grants/Entitlement Grants	14.218	B-09-MC-72-0019	638,996
Direct Program:			
Section 8 Housing Choice Vouchers	14.871		472,316
Pass-through the Commonwealth of Puerto Rico – Municipality of San Juan:			
Housing Opportunities for Persons with Aids	14.241	Not Available	<u>99,232</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>1,210,544</u></b>
<b><u>U.S. DEPARTMENT OF THE INTERIOR</u></b>			
Direct Program:			
Wildlife Restoration	15.611		<u>65,568</u>
<b>Total U.S. Department of the Interior</b>			<b><u>65,568</u></b>

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Adult Education-Basic Grants to States	84.002	2013AF0108	105,424
<b>Total U.S. Department of Education</b>			<b>105,424</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>			
Direct Program:			
Community Services Block Grant	93.569	Not Available	30,263
Pass-through the Commonwealth of Puerto Rico – Office of the Ombudsman for the Elderly: (Cluster of Programs)			
Special Program for Aging – Title III, Part B – Grant for Supporting Services and Senior Centers	93.044	Not Available	82,149
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	172,109
<b>Total U.S. Department of Health and Human Services</b>			<b>284,521</b>
<b><u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u></b>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036		43,453
<b>Total U.S. Department of Homeland Security</b>			<b>43,453</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,722,728</b>

The accompanying notes are an integral part of this schedule

**1. BASIS OF PRESENTATION**

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting. Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

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

Description	Special Revenue Fund – Federal Grants	Others Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 1,250,412	\$ 472,316	\$ 1,722,728
Non-federal awards expenditures	567	613,196	613,763
Total expenditures, fund statements	<u>\$ 1,250,979</u>	<u>\$ 1,085,512</u>	<u>\$ 2,336,491</u>



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

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

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Río Grande**, Puerto Rico, 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 March 7, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the **Municipality of Río Grande'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 of Río Grande's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Río Grande's** internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2015-001** and **2015-003** to be material weaknesses.

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2015-002 to be significant deficiencies.

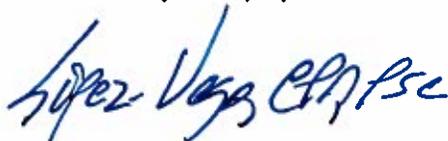
**Compliance and Other Matters**

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

We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated March 7, 2016.

**Purpose of this report**

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



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
March 7, 2016

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

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

### Report on Compliance for Each Major Federal Program

We have audited the **Municipality of Río Grande's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Río Grande's** major federal programs for the year ended June 30, 2015. **Municipality of Río Grande's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditor's Responsibility

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

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

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

### Opinion on Each Major Federal Program

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

### Report on Internal Control over Compliance

Management of the **Municipality of Río Grande** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the **Municipality of Río Grande'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 of Río Grande's** internal control over compliance.

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.

*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, 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **2015-004** to be significant deficiency.

We noted certain other matters that we reported to management of the **Municipality of Río Grande** in a separate letter dated March 7, 2016.



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

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. However, this report is a matter of public record and its distribution is not limited.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 7, 2016

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

**Financial Statements**

Type of auditor’s report issued:	<b>Unmodified for FFS, Qualified for GWFS</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes <b>X</b>	No

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Type of auditor’s report issued on compliance for major programs:	<b>Unmodified</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No <b>X</b>

**Identification of major programs:**

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Grant
14.871	Section 8 Housing Choice Voucher

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	Yes                      No <b>X</b>

**Section II – Financial Statements Findings**

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

**Finding Reference**            **2015-001**

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

**Statement of Condition**    Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.

In addition, the Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.

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

**Cause of Condition**        The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.

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

**Section II – Financial Statements Findings**

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

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

**Questioned Cost**              None

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

Implementation Date:            Still in process

Responsible Person:            Mrs. Lisandra Panell,  
Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-002</b>
<b>Requirement</b>	<b>Operating deficit of general fund</b>
<b>Statement of Condition</b>	The Municipality closed its fiscal year ended on June 30, 2015 with a fund balance deficiency in the general fund of \$3,905,484.
<b>Criteria</b>	In accordance with the “Reglamento para la Administración de Municipios” Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.
<b>Cause of Condition</b>	The overstatement of estimated revenues accounts in prior years caused that the Municipality operated with a deficit.
<b>Effect of Condition</b>	The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
<b>Recommendation</b>	The Municipality should continue its efforts by revising and amending the budget as current information related to collections of budgeted revenues becomes available resources.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Municipality’s Management concurs with the finding. The Municipality have taken aggressive action to increase revenues and will take adequate measurements in order to strengthen its procedures to assure to control the expenditures and reduce deficit.</p> <p>Implementation Date: Still in process</p> <p>Responsible Person: Mrs. Lisandra Panell, Finance Department Director</p>

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-003</b>
<b>Requirement</b>	<b>Payroll and Related Liabilities – Payroll Preparation and Timekeeping (MW)</b>
<b>Statement of Condition</b>	During our audit procedures, we noted differences between employees’ attendance cards and regular vacations and sick leave licenses balances. The Municipality uses a computer software to register attendance, but there is no method to validate the accuracy of balances calculated by the software. As a result, we could not validate the compensated absences balance amount included in the government-wide financial statements.
<b>Criteria</b>	Article 11.016 (b)(1) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) establishes that every municipality must prepare and administer a vacation and sick leave plan.
<b>Cause of Condition</b>	Internal control procedures failed to assure that employee’s card assistances are consistent with the accumulation of licenses for vacations and sick leave of each employee.
<b>Effect of Condition</b>	The Municipality did not comply with regulations stated in Article 11.016 (b)(1) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81)
<b>Recommendation</b>	The Municipality should establish adequate monitoring procedures to assure that accumulation of licenses for vacations and sick leave will be in accordance to regulations.
<b>Questioned Costs</b>	None
<b>Management Response And Corrective Action</b>	The Municipality agrees with the finding. The Human Resources Department will strengthen its processes to validate the calculations in the attendance software and will start the process of evaluating other alternatives to register attendance and compensated absences to comply with regulations.

Responsible Person: Mrs. Leysla Ortíz-Human Resources Department Director

Implementation Date: July 2016.

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

<b>Finding Reference</b>	<b>2015-004</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers (CFDA 14.871), U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Reporting (L)</b>
<b>Statement of Condition</b>	We performed a reporting test and we noted that the unaudited financial data (submitted electronically) was not submitted to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (March 18, 2016)
<b>Criteria</b>	OMB No. 2535-017, 24 CFR section 5.801, requires PHA to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Real Estate Assessment Center (REAC).
<b>Cause of Condition</b>	The Program’s accounting records did not comply with HUD requirements and were not adequate for the preparation of reports.
<b>Effect of Condition</b>	The Program’s accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions. In addition, the Program’s reports related to federal funding may be misleading for internal management decision making and for the reliability of external financial reporting.
<b>Recommendation</b>	We recommend that Management should strengthen its procedures to reconcile, in a timely manner, the federal funds reports with the accounting records in order to produce reliable financial data. The Program’s management gave instructions to the program accountant to modify the accounting records in order to comply with the Program financial management and accounting requirements.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	A schedule of report submission will be adopted and the Program Accountant will be responsible of its implementation.
<b>Status:</b>	Still in Process
	Responsible Person: Mrs. Helena Bachour-Program Accountant
	Implementation Date: April 2016

Prior year audit findings for the Single Audit of the Municipality of Río Grande were cleared in the report issued in the year ended June 30, 2014. No prior year audit findings remained un-cleared as of the date of our report.