

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

**MUNICIPIO DE TOA ALTA  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

---

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

---

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

---

**Year Ended June 30, 2015**

---



Municipality of Toa Alta, PO Box 82, Toa Alta, Puerto Rico 00954  
Hon. Clemente Agosto Lugardo

**CONTENTS**

	<b>Page</b>
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-4
Required Supplementary Information (Part 1) Management's Discussion and Analysis	5-12
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	20
Statement of Cash Flows	21
Notes to Basic Financial Statements	22-66
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	67
Notes to Budgetary Comparison Schedule-General Fund	68

## CONTENTS

	<b>Page</b>
<b><u>SUPPLEMENTARY INFORMATION (continued)</u></b>	
Financial Data Schedule – Balance Sheet	69
Financial Data Schedule – Income Statement	70
Notes to Financial Data Schedule	71
Schedule of Expenditures of Federal Awards	72-73
Notes to Schedule of Expenditures of Federal Awards	74-75
<b><u>INTERNAL CONTROL AND COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Independent Auditors' Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	76-77
Independent Auditors' Report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	78-80
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of Findings and Questioned Costs	81-90
Summary Schedule of Prior Years Audit Findings	91



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta**, Puerto Rico (the 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.

### **Auditor's Responsibility**

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

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

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Business-Type Activities	Adverse
General Fund	Unmodified
Debt Service Fund	Unmodified
Bond Issuance for Capital Projects Fund	Unmodified
Las Acerolas-Special Community Fund	Unmodified
Section 108 Loan Guarantee Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### ***Basis for Adverse Opinion on Governmental and Business-Type 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.

The financial statements of "Empresas Municipales Toalteñas" (EMT) have not been audited as of June 30, 2015, and we were not engaged to audit EMT's financial statements as part of our audit of the Municipality of Toa Alta's basic financial statements. EMT's financial activities are included in the Municipality's basic financial statements as a blended component unit.

Management has not capitalized certain acquisitions of properties and equipment and the construction in progress in the governmental activities and, accordingly, such disbursements are recognized as expenses in the statement of activities. Also, no depreciation expense has been recorded for those assets in the fiscal year 2015. Accounting principles generally accepted in the United States of America require that those assets be capitalized and depreciated, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities has not been determined.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

In addition, as discussed in Note 12 to the financial statements, management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non-current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that, at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected costs from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

### **Adverse Opinion**

In our opinion, except for the effect of the matter described in the “Basis for Adverse Opinion” paragraph, if any, the financial statements referred to above do not present fairly the financial position of the governmental activities and the business-type activities of the **Municipality of Toa Alta**, Puerto Rico, as of June 30, 2015, or the respective 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 Toa Alta**, Puerto Rico, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof 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 and budgetary comparison information on pages 5 through 12 and 67 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 the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Toa Alta's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages 69 and 70 is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 72 and 73 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the 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 procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

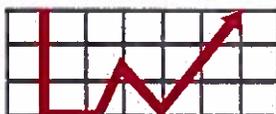
In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016, on our consideration of **Municipality of Toa Alta's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Toa Alta's** internal control over financial reporting and compliance.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
June 14, 2016

Stamp No. 2728520 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 Toa Alta's (the Municipality)** financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. The 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. The discussion and analysis includes comparative data for prior year as this information is 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. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, 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 following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015 deserve special mention:

1. Total assets of the Municipality amounted to \$81,669,654, which represents a decrease of 2% compared to the prior fiscal year.
2. At the end of fiscal year 2015, total liabilities amounted to \$54,481,211. Out of said amount, \$47,369,454 corresponded to long-term liabilities, of which \$36,439,000 represents 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 \$27,188,443, which represents an increase of approximately 1% when compared to the prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$29,093,335 derived from the following sources: \$5,254,990 from charges for services; \$3,121,857 from operating grants and contributions; \$3,503,652 from capital grants and contributions; and finally, \$17,212,836 from general revenues.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$28,709,127.

### **FINANCIAL HIGHLIGHTS (CONTINUED)**

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure of \$384,208.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$15,456,304.
8. As of the end of the current fiscal year, the Municipality's general fund deficit amounted to \$4,335,140, compared to a deficit of \$1,959,094 in the prior fiscal year.
9. The actual General Fund budgetary activities resulted in an favorable balance of \$261,125.

### **FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds' behavior during the fiscal year 2015. The combination of these two perspectives provides the user with the opportunity to address significant questions concerning the content of said financial statements, and provides 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 governmental funds and proprietary 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 in a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit oriented framework, the return on assets' performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the Municipality of Toa Alta's constituents.

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

## FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to \$28,709,127. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$11,880,499 was derived from the following sources: \$5,254,990 from charges for services; \$3,121,857 from operating grants and contributions; and \$3,503,652 from capital grants and contributions. General revenues for the year amounted to \$17,212,836. There was an excess of revenues over expenses in the amount of \$384,208, which contributed to the increase in the figure of net position attained at the end of the fiscal year.

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

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions. The Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Fund Financial statements also include the Statement of Net Position, the Statement of Revenue, Expenditures and Changes in Net Position and the Statement of Cash Flows of the Proprietary Funds comprised as the Municipal Enterprises Corp. These statements are presented using the full accrual basis of accounting, similar to the Municipality's government-wide financial statements. The net position and results of operations of these funds are presented in the business-type activities column included in the government-wide Statement of Net Position and Statement of Activities, respectively.

## INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Financial Statements. The Municipality implemented the capitalization of its infrastructure since July 1, 2002.

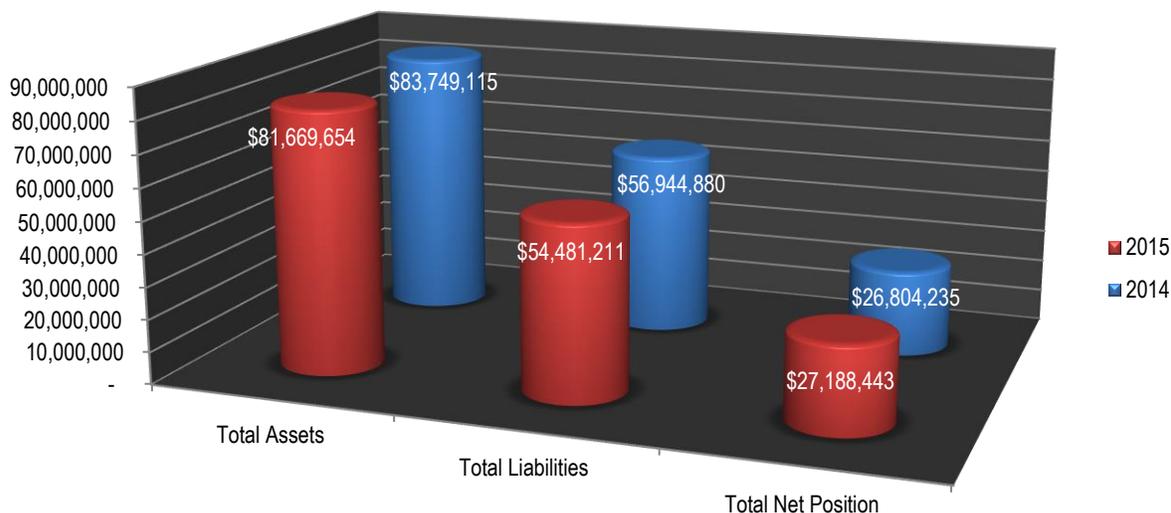
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management 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 aspect, 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 indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Toa Alta**, the primary government's assets exceeded its total liabilities by \$27,188,443 at the end of 2015, compared to \$26,804,235 at the end of the previous year, as showed in the following condensed Statements of Net Position of the Primary Government.

Condense Statements of Net Position	2015	2014	Change	%
Current and other assets	\$ 25,206,269	\$ 27,382,941	\$ (2,176,672)	(7%)
Capital assets	56,463,385	56,366,174	97,211	0.17%
Total assets	<u>81,669,654</u>	<u>83,749,115</u>	<u>(2,079,461)</u>	(2%)
Current and other liabilities	7,111,757	7,127,893	(16,136)	(0.2%)
Long-term liabilities	47,369,454	49,816,987	(2,447,533)	(4%)
Total liabilities	<u>54,481,211</u>	<u>56,944,880</u>	<u>(2,463,669)</u>	(4%)
Net investment in capital assets	28,551,935	28,721,537	(169,602)	(4%)
Restricted	12,868,894	10,799,193	2,069,701	19%
Unrestricted (deficit)	(14,232,386)	(12,716,495)	(1,515,891)	11%
Total net position	<u>\$ 27,188,443</u>	<u>\$ 26,804,235</u>	<u>\$ 384,208</u>	1%



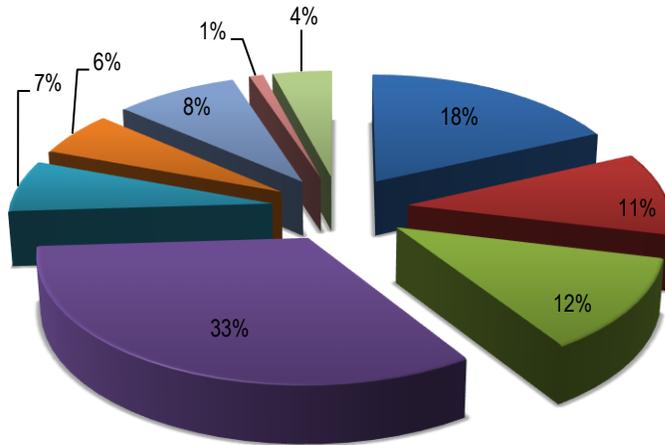
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

Approximately 46 percent of the Municipality's total revenue came from taxes, while 31 percent resulted from grants and contributions, including federal aid. Charges for services provided 18 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 35 percent, and health, public work and sanitation 41 percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condense Statements of Activities	2015	2014	Change	%
Program revenues:				
Charges for services	\$ 5,254,990	\$ 2,100,160	\$ 3,154,830	150%
Operating grants and contributions	3,121,857	1,723,577	1,398,280	81%
Capital grants and contributions	3,503,652	2,329,490	1,174,162	50%
General revenues:				
Property taxes	9,654,394	8,465,666	1,188,728	14%
Municipal license tax	1,939,209	1,685,300	253,909	15%
Construction excise taxes	283,290	194,674	88,616	45%
Municipal sales and taxes	1,665,013	2,162,099	(497,086)	(22%)
Grants and contributions	2,476,717	6,023,673	(3,546,956)	(58%)
Interest	569,602	804,404	(234,802)	(29%)
Miscellaneous	624,611	271,793	352,818	129%
Special Items:				
Property taxes from review of prior years CRIM settlements	-	1,500,000	1,500,000	(100%)
<b>Total revenues</b>	<b>29,093,335</b>	<b>27,260,836</b>	<b>1,832,499</b>	<b>6%</b>
Expenses:				
General government	\$ 10,269,132	\$ 9,911,960	\$ 357,172	3%
Public safety	1,722,527	2,128,802	(406,275)	(19%)
Health, public works and sanitation	11,906,202	3,212,811	8,693,391	270%
Culture, recreation and education	530,491	1,113,471	(582,980)	(52%)
Public housing and welfare	2,051,486	1,859,704	191,782	10%
Urban and economic development	204,607	2,899,809	(2,695,202)	(92%)
Interest on long-term debt	2,024,682	2,092,657	(67,975)	(3%)
<b>Total expenses</b>	<b>28,709,127</b>	<b>23,219,214</b>	<b>5,489,913</b>	<b>23%</b>
Change in net position	384,208	4,041,622	(3,657,414)	(90%)
Net position, beginning	26,804,235	22,762,613	4,041,622	17%
<b>Net position, end of year</b>	<b>\$ 27,188,443</b>	<b>\$ 26,804,235</b>	<b>\$ 384,208</b>	<b>1%</b>

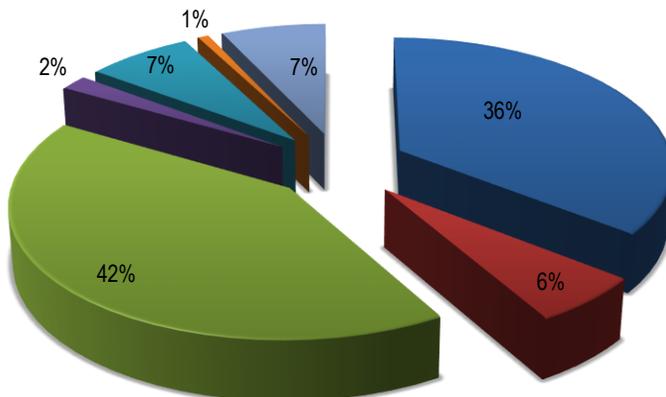
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

**Revenues 2015**



- Charges for services- 18%
- Operating grants and contributions- 11%
- Capital grants and contributions- 12%
- Property taxes- 33%
- Municipal license taxes- 7%
- Municipal sales and use taxes- 6%
- Grants and contributions not restricted to specific programs- 9%
- Construction excise taxes- 1%
- Interest and miscellaneous revenues- 4%

**Expenses 2015**



- General Government- 36%
- Public safety- 6%
- Health, public works and sanitation- 42%
- Culture, recreation and education -2%
- Public housing and welfare- 7%
- Urban and economic development- 1%
- Interest on long-term debt- 7%

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

### **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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$15,456,304, a decrease of \$2,512,158 in comparison with the prior year. There are restrictions of fund balance amounting to \$19,811,444. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions: 1) to pay for capital improvements \$10,020,357; 2) to pay for debt service, \$4,225,286; and 3) for special purposes \$5,565,801.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2015, the general fund has a deficit fund balance of \$4,335,140.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund's original and final budget amounted to \$17,723,284, which represents an increase of 5% when compared to the 2013-2014 budget.

The actual General Fund budgetary activities resulted in a favorable balance of \$261,125, mainly due to a negative variance in revenues of \$1,100,235, which was offset by a positive variance in expenditures of \$1,361,360.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2015, amounts to \$79,936,816, with an accumulated depreciation of \$23,473,431, leaving a net book value of \$56,463,385. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishings, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or note issuances. The proceeds from bond and note issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other activities. As of June 30, 2015, the Municipality has \$8,574,916 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

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

### **Debt Administration**

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

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur in additional general obligation debt if the deposits in such Municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by the Governmental Development Bank of Puerto Rico (GDB), will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity"). The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

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

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

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

### **FINAL COMMENTS**

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

### **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director.

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Assets</b>			
Cash and cash equivalents	\$ 7,321,013	\$ 90,955	\$ 7,411,968
Cash with fiscal agent	15,284,438		15,284,438
Receivables, net:			
Sales and use taxes	110,068		110,068
Others	41,029	954,976	996,005
Due from:			
Commonwealth Government	1,146,350		1,146,350
Federal Government	147,440		147,440
Business-type activities	110,000		110,000
Capital assets			
Land and construction in progress	22,573,946	710,181	23,284,127
Other capital assets, net	32,579,676	599,582	33,179,258
Total capital assets	<u>55,153,622</u>	<u>1,309,763</u>	<u>56,463,385</u>
Total assets	<u>79,313,960</u>	<u>2,355,694</u>	<u>81,669,654</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	3,197,590	787,504	3,985,094
Note payable	16,345		16,345
Interest payable	840,645		840,645
Due to:			
Commonwealth Government	868,512		868,512
Governmental activities		110,000	110,000
Unearned revenues:			
Municipal license taxes	1,193,963		1,193,963
Federal grants	97,198		97,198
Noncurrent liabilities:			
Due within one year	2,527,499		2,527,499
Due in more than one year	44,841,955		44,841,955
Total liabilities	<u>53,583,707</u>	<u>897,504</u>	<u>54,481,211</u>
<b>Net Position</b>			
Net investment in capital assets	27,242,172	1,309,763	28,551,935
Restricted for:			
Capital projects	77,826		77,826
Debt service	9,608,338		9,608,338
Other purposes	3,182,730		3,182,730
Unrestricted	(14,380,813)	148,427	(14,232,386)
<b>Total net position</b>	<u>\$ 25,730,253</u>	<u>\$ 1,458,190</u>	<u>\$ 27,188,443</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government</b>							
<b>Governmental activities:</b>							
General government	\$ 10,269,132	\$ 4,092,775	\$ 458,813	\$ -	\$ (5,717,544)	\$ -	\$ (5,717,544)
Public safety	1,722,527	180,290	-	-	(1,542,237)	-	(1,542,237)
Health, public works and sanitation	11,029,100	-	-	3,503,652	(7,525,448)	-	(7,525,448)
Culture, recreation and education	530,491	-	-	-	(530,491)	-	(530,491)
Public housing and welfare	2,051,486	-	2,663,044	-	611,558	-	611,558
Urban and economic development	204,607	-	-	-	(204,607)	-	(204,607)
Interest on long-term debt	2,024,682	-	-	-	(2,024,682)	-	(2,024,682)
Total governmental activities	<u>27,832,025</u>	<u>4,273,065</u>	<u>3,121,857</u>	<u>3,503,652</u>	<u>(16,933,451)</u>	<u>-</u>	<u>(16,933,451)</u>
<b>Business-type activities:</b>							
Municipal Enterprises, Corp	877,102	981,925	-	-	-	104,823	104,823
Total business-type activities	<u>877,102</u>	<u>981,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,823</u>	<u>104,823</u>
Total primary government	<u>\$ 28,709,127</u>	<u>\$ 5,254,990</u>	<u>\$ 3,121,857</u>	<u>\$ 3,503,652</u>	<u>\$ (16,933,451)</u>	<u>\$ 104,823</u>	<u>\$ (16,828,628)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes					9,654,394	-	9,654,394
Municipal license taxes					1,939,209	-	1,939,209
Sales and use taxes					1,665,013	-	1,665,013
Construction excise taxes					283,290	-	283,290
Grants and contributions not restricted to specific programs					2,476,717	-	2,476,717
Interest					569,602	-	569,602
Miscellaneous					624,611	-	624,611
Total general revenues					<u>17,212,836</u>	<u>-</u>	<u>17,212,836</u>
<b>Change in net position</b>					279,385	104,823	384,208
<b>Net position - beginning</b>					25,450,868	1,353,367	26,804,235
<b>Net position - ending</b>					<u>\$ 25,730,253</u>	<u>\$ 1,458,190</u>	<u>\$ 27,188,443</u>

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,422,407	\$ -	\$ -	\$ 2,182,171	\$ 1,414,981	\$ 2,301,454	\$ 7,321,013
Cash with fiscal agent		6,332,732	8,719,841	-	-	231,865	15,284,438
Receivables, net:							
Sales and use taxes	110,068	-	-	-	-	-	110,068
Others	40,129	-	-	900	-	-	41,029
Due from:							
Commonwealth Government	669,915	318,199	-	-	-	158,236	1,146,350
Federal Government	-	-	-	-	-	147,440	147,440
Other funds	782,460	-	-	200,000	-	1,259,710	2,242,170
<b>Total assets</b>	<b>\$ 3,024,979</b>	<b>\$ 6,650,931</b>	<b>\$ 8,719,841</b>	<b>\$ 2,383,071</b>	<b>\$ 1,414,981</b>	<b>\$ 4,098,705</b>	<b>\$ 26,292,508</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 3,061,606	\$ -	\$ 5,468	\$ -	\$ -	\$ 130,516	\$ 3,197,590
Matured bonds and notes payable	16,345	1,585,000	-	-	-	-	1,601,345
Matured interest payable	-	840,645	-	-	-	-	840,645
Due to:							
Commonwealth Government	868,512	-	-	-	-	-	868,512
Other funds	1,459,710	-	108,997	-	-	563,463	2,132,170
Unearned revenues:							
Municipal license taxes	1,193,963	-	-	-	-	-	1,193,963
Federal Government	-	-	-	-	-	97,198	97,198
<b>Total liabilities:</b>	<b>6,600,136</b>	<b>2,425,645</b>	<b>114,465</b>	<b>-</b>	<b>-</b>	<b>791,177</b>	<b>9,931,423</b>
<b>Deferred inflows of resources</b>							
Unavailable revenues:							
Property taxes	608,983	-	-	-	-	-	608,983
Commonwealth Government	171,000	-	-	-	-	-	171,000
Federal Government	-	-	-	-	-	124,798	124,798
<b>Total deferred inflows of resources</b>	<b>779,983</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,798</b>	<b>904,781</b>
<b>Fund balances</b>							
Restricted	-	4,225,286	8,605,376	2,383,071	1,414,981	3,182,730	19,811,444
Unassigned (deficit)	(4,355,140)	-	-	-	-	-	(4,355,140)
<b>Total fund balances (deficit)</b>	<b>(4,355,140)</b>	<b>4,225,286</b>	<b>8,605,376</b>	<b>2,383,071</b>	<b>1,414,981</b>	<b>3,182,730</b>	<b>15,456,304</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 3,024,979</b>	<b>\$ 6,650,931</b>	<b>\$ 8,719,841</b>	<b>\$ 2,383,071</b>	<b>\$ 1,414,981</b>	<b>\$ 4,098,705</b>	<b>\$ 26,292,508</b>

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes:							
Property taxes	\$ 5,612,811	\$ 3,833,850	\$ -	\$ -	\$ -	\$ -	\$ 9,446,661
Municipal license taxes	1,939,209	-	-	-	-	-	1,939,209
Sales and use taxes	940,671	614,274	-	-	-	-	1,554,945
Construction excise taxes	291,503	-	-	-	-	-	291,503
Fees, fines and charges for services	3,510,702	-	-	-	-	180,290	3,690,992
Intergovernmental:							
Commonwealth Government	6,481,186	-	-	-	-	458,813	6,939,999
Federal Government	-	-	-	-	-	2,663,044	2,663,044
Interest	567,189	-	-	-	2,413	-	569,602
Miscellaneous	585,279	-	2,298	-	-	37,034	624,611
<b>Total revenues</b>	<b>19,928,550</b>	<b>4,448,124</b>	<b>2,298</b>	<b>-</b>	<b>2,413</b>	<b>3,339,181</b>	<b>27,720,566</b>
<b>Expenditures</b>							
Current:							
General government	10,582,952	-	923	-	-	78,791	10,662,666
Public safety	1,597,800	-	-	-	-	142,727	1,740,527
Health, public works and sanitation	9,971,632	-	590,869	-	-	536,764	11,099,265
Culture, recreation and education	526,652	-	-	-	-	3,839	530,491
Public housing and welfare	-	-	-	30	-	2,051,456	2,051,486
Urban and economic development	-	-	-	-	-	204,607	204,607
Debt service:							
Principal	-	1,585,000	-	-	334,000	-	1,919,000
Interest and other charges	-	1,681,136	-	-	343,546	-	2,024,682
<b>Total expenditures</b>	<b>22,679,036</b>	<b>3,266,136</b>	<b>591,792</b>	<b>30</b>	<b>677,546</b>	<b>3,018,184</b>	<b>30,232,724</b>
Excess (deficiency) of revenues over (under) expenditures	(2,750,486)	1,181,988	(589,494)	(30)	(675,133)	320,997	(2,512,158)
<b>Other financing sources (uses)</b>							
Transfers in	429,509	-	-	-	677,546	75,069	1,182,124
Transfers out	(75,069)	(421,382)	-	-	-	(685,673)	(1,182,124)
<b>Total other financing sources (uses)</b>	<b>354,440</b>	<b>(421,382)</b>	<b>-</b>	<b>-</b>	<b>677,546</b>	<b>(610,604)</b>	<b>-</b>
Net change in fund balances	(2,396,046)	760,606	(589,494)	(30)	2,413	(289,607)	(2,512,158)
Fund balance (deficit), beginning	(1,959,094)	3,464,680	9,194,870	2,383,101	1,412,568	3,472,337	17,968,462
Fund balance (deficit), ending	\$ (4,355,140)	\$ 4,225,286	\$ 8,605,376	\$ 2,383,071	\$ 1,414,981	\$ 3,182,730	\$ 15,456,304

**Total governmental fund balances** **\$ 15,456,304**

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 55,153,622

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

Due from Commonwealth Government:

Property taxes - General Fund	608,983	
Sales and use tax-Governmental Development Bank	110,068	
Christmas bonus reimbursement	60,932	

Due from Federal Government:

P.R. Office of Ombudsman Administration (OAP) - Special Program for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	27,514	
U.S. Department of Health and Human Resources – Community Services Block Grant	58,058	
U.S. Department of Transportation-Federal Transit Grants	39,226	904,781

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	(28,175,000)	
Section 108 Loan Guarantee note payable	(6,679,000)	
Note payable to CRIM - Law No. 42	(1,010,967)	
Note payable to CRIM - Law No. 146	(192,664)	
Compensated absences	(1,890,247)	
Christmas bonus	(259,054)	
P.R. Department of Treasury - Income tax withholdings debt	(55,569)	
Claims and judgments	(268,672)	
Landfill obligation	(7,253,281)	(45,784,454)

**Net position of governmental activities** **\$ 25,730,253**

**Net change in fund balances - total governmental funds** **\$ (2,512,158)**

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

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

Expenditures for capital assets	117,697
---------------------------------	---------

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

Property taxes - General Fund (current year)	\$ 608,983	
Christmas bonus reimbursement (current year)	60,932	
Sales and use tax advance (current year)	110,068	
Federal Government reimbursement (current year)	124,798	904,781

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

Property taxes - General Fund (prior year)	(401,250)	
Christmas bonus reimbursement (prior year)	(112,687)	(513,937)

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the disposed asset

(29,531)

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

Matured bonds and notes principal payments (net change)	(135,000)
---	-----------

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

General obligation bonds and notes	2,054,000	
Other long-term liabilities	1,108,282	3,162,282

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

Christmas bonus	(259,054)	
Claims and judgments	(221,132)	
Compensated absences	(156,111)	
Others	(78,452)	(714,749)

**Change in net position of governmental activities** **\$ 279,385**

	<u>Municipal Enterprises, Corp</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 90,955
Accounts receivable, net:	
Service fees	951,027
Prepaid insurance	3,949
Total current assets	<u>1,045,931</u>
Noncurrent assets:	
Land	710,181
Other capital assets, net of accumulated depreciation	599,582
Total noncurrent assets	<u>1,309,763</u>
<b>Total assets</b>	<u><u>\$ 2,355,694</u></u>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities:	
Accounts payable	\$ 784,018
Accrued payroll liabilities	3,486
Due to governmental funds - General Fund	110,000
Total current liabilities	<u>897,504</u>
<b>Total liabilities</b>	<u>897,504</u>
Net position:	
Net investment in capital assets	1,309,763
Unrestricted	148,427
<b>Total net position</b>	<u>1,458,190</u>
<b>Total liabilities and net position</b>	<u><u>\$ 2,355,694</u></u>

	<b>Municipal Enterprises, Corp.</b>
<b>Operating revenues:</b>	
Services fees	\$ 962,256
Rent charges	19,669
Total operating revenues	<u>981,925</u>
<b>Operating expenses:</b>	
Salaries and benefits	214,376
Repairs and maintenance	85,617
Supplies and materials	150,815
Professional services	253,112
Comissions	93,372
Office expense	14,420
Rent expense	30,650
Depreciation	34,740
Total operating expenses	<u>877,102</u>
<b>Operating income</b>	<u>104,823</u>
<b>Change in net position</b>	104,823
<b>Net position, at beginning of year</b>	<u>1,353,367</u>
<b>Net position, at end of year</b>	<u><u>\$ 1,458,190</u></u>

	<b>Municipal Enterprises, Corp.</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 30,898
Cash paid to employees for services	(1,235)
Cash paid to suppliers	(23,104)
	<hr/>
Net cash used by operating activities	6,559
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of capital assets, net	(11,729)
	<hr/>
Net cash used for investing activities	(11,729)
	<hr/>
<b>Net decrease in cash and cash equivalents</b>	(5,170)
	<hr/>
<b>Cash and cash equivalents, beginning</b>	96,125
	<hr/>
<b>Cash and cash equivalents, ending</b>	\$ 90,955
	<hr/> <hr/>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 104,823
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation expense	34,740
Changes in assets and liabilities:	
Accounts receivable, net - service fees	(951,027)
Accounts payable and accrued payroll liabilities	818,023
Net cash used by operating activities	<hr/> \$ 6,559 <hr/> <hr/>

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Toa Alta** (the Municipality) was founded in 1751. The Municipality's governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration, public works and sanitation, public safety, health, welfare programs, community, urban and economic development, culture and recreation activities and educational services.

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its governmental accounting and financial reporting standards which, along with subsequent GASB Statements and Interpretations, constitute GAAP for governmental entities.

### A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Toa Alta (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 exist between the primary government and the entity or
  - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

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

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

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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 is one component unit which should be included as part of the financial statements:

1. **Municipal Enterprises, Corp.** – This municipal enterprise was created on January 28, 2013 with the Municipal Ordinance Number 23, 2012-2013 series, under the provisions of Law 149 of November 22, 2009 and Law 181 of August 11, 2011, which amend Law 81 of 1991, Law of Autonomous Municipalities. These laws give the municipalities the faculty to create for-profit enterprises, so they can purchase commercial franchises and operate businesses that stimulate the economic development of the municipality.

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

This, in turn, creates new employment opportunities and, at the same time, helps subsidize the traditional responsibilities the municipalities have toward their citizens. As of June 30, 2015, Municipal Enterprises, Corp. has three collaborating agreements with the Municipality of Toa Alta, by which they charge a service fee for the administration and operation of the municipal landfill and of the community centers owned by the Municipality, and for the rendering of repairs, maintenance and cleaning services on municipal facilities. For financial reporting purposes, this component unit meets the criteria for *blended* presentation and, therefore, is presented as a business-type activity in the Government-wide Financial Statements and as a proprietary fund in the Fund Financial Statements. The Land in the amount \$710,181 and net equipment and facilities in the amount of \$599,582 that are reported in the business-type column of the government-wide statement of Net Position and in the Proprietary Fund's Statement of Position are the sole property of the Municipality of Toa Alta. The Municipality has transferred only the use of such facilities and equipment to the Municipal Enterprise as part of the collaborative agreement signed for the administration and operation of the landfill. Municipal Enterprises, Corp. is located on Road Num. 165 R, Km. 11.2, Barceló Street, at the corner of Luis Muñoz Rivera Street, Toa Alta, Puerto Rico, 00954.

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

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

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

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

#### **Basic financial statements**

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

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

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

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

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

The types of transactions included as program revenues are: charges for services, fees, rent, licenses and permits; operating grants which include operating-specific and discretionary (either operating or capital) grants; and capital grants which are capital-specific grants. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Property taxes (imposed 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)**

#### **Governmental funds**

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:

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

**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.

**Debt Service Fund** – This fund is used to account for and report financial resources that are restricted for expenditure for the payment of principal and interest of general obligation bonds and notes issued by the Municipality. This fund accounts for the resources of three individual funds: 1) “CAE Fund,” the sinking fund which accounts for the 3.50% and 4.50% of real and personal property taxes, respectively, collected by the Municipal Revenue Collection Center (CRIM); 2) “Municipal Redemption Fund,” the sinking fund that accounts for the 0.2% of the 0.5% collected from the sales and use tax that is, by law, deposited in the Governmental Development Bank (GDB) for the financing of loans to Municipalities; and 3) operational loans that are paid from the general fund’s operating revenues.

**Bond Issuances for Capital Projects Fund** – This fund is used to account for and report the financial resources received from the issuance of general obligations bonds and notes for capital outlays, including the acquisition, development and improvement of capital assets.

**Las Acerolas Special Community Fund** – This fund is used to account for and report revenues sources received from the Special Communities Trust Fund, through the Puerto Rico Administration for the Development and Improvement of Housing, which are restricted for expenditure for the activities performed for the rehabilitation and construction of new housing in the special community of Las Acerolas.

**Section 108 Loan Guarantee Fund** – This fund is used to account for and report other financing sources received from the Section 108 Loan Guarantee Program, through the U.S. Department of Housing and Urban Development (HUD), which are restricted for expenditure for the activities performed for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery.

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.

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 they are available.

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

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, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) 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.

### Proprietary funds

The financial information of the blended component unit Municipal Enterprises, Corp. are accounted for in a *proprietary fund*. A *proprietary fund* is used to account for state or local government's activities that are similar to activities that may be performed by a commercial enterprise. The purpose of this type of fund is to provide a service or product to the public or other governmental entities at a reasonable cost. There are two types of proprietary funds:

- **Enterprise Fund** – it may be used to report any activity for which a fee is charged to external users for goods or services. Governmental accounting standards establish that an enterprise fund *must* be used to account for an activity if any of the following three criteria is satisfied:

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

1. The activity is financed with debt that is secured *solely* by a pledge of the net revenues from fees and charges of the activity.
  2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
  3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).
- **Internal Service Fund** – it may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis. It should be used only when the reporting government itself is the predominant participant in the fund.

The accrual basis of accounting and the flow of economic resources measurement focus are used to prepare the financial statements of a proprietary fund. Revenues, expenses, gains, losses, assets and liabilities are recognized when an exchange takes place (when value is received for value). Thus, 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. All assets, deferred outflows of resources, liabilities and deferred inflows of resources are presented in the fund's statement of net position, including capital assets and long-term debt.

The financial statements of the Municipality's Enterprise Fund include the following:

- **Statement of Net Position** – assets and liabilities are classified as current and noncurrent and it can be presented in either one of the following formats: *net position format* (assets plus deferred outflows of resources less liabilities less deferred inflows of resources equals net position); or *balance sheet format* (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position).
- **Statement of Revenues, Expenses and Changes in Net Position** – it is the operating statement of a proprietary fund. Revenues are reported by major source; expenses are classified based on the nature of the expense incurred; and, finally, operating revenues and expenses are reported separately from non-operating revenues and expenses and from capital contributions and transfers.
- **Statement of Cash Flows** – it summarizes the cash inflows and outflows of the entity into four categories: 1) cash flows from operations, 2) noncapital financing activities, 3) capital and related financing activities, and 4) investing activities. In addition, noncash transactions that have an effect on the entity's financial position are presented. Finally, a reconciliation is presented between operating income and the net cash flow from operating activities.

The Municipal Enterprise, Corp. is reported as an enterprise fund within the Municipality's FFS.

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

### Notes to financial statements

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

### Required Supplementary Information (RSI)

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

### C. Financial reporting presentation

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

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

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

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

The use of the capital projects funds has been limited to only for major capital acquisitions, construction or improvement activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities. The routine purchases of minor capitalizable assets (such as furniture, office equipment, vehicles and other minor capital assets or improvements) have been reported in the governmental fund from which financial resources were used for the payment.

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

**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 represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

### F. Receivables and due from governmental entities

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

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

**G. Inter-fund 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 inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances among funds are reported as “due from/to other funds”.

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

**H. Inventories**

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

**I. Capital assets**

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

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

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

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

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

### 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 arise, 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 obligations as incurred.

**N. Net position**

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

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

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

### O. Net position flow assumption

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

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

### P. Fund balances

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

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

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 (the official to which the Mayor has also delegated the authority to assign amounts) or by any other official or body to which the Mayor delegates. Furthermore, the nature of the actions necessary to remove or modify an assignment is not as prescriptive as it is with committed fund balances. With the exception of the general fund, this is the residual fund balance of the classification of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

**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 ERS plan and additions to/reductions from the ERS plan's fiduciary net position have been determined on the same basis as they are reported by the ERS. 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. Inter-fund and intra-entity transactions

The Municipality has the following types of transactions among funds:

1. **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.
2. **Intra-entity transactions** - Transfers between the funds of the primary government are reported as inter-fund 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.

### 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.

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

### 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 non-employer 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).
7. **GASB Statement No. 78 “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.”** The requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (June 30, 2016).
8. **GASB Statement No. 79 “Certain External Investment Pools and Pool Participants.”** The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 (December 31, 2016), except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015 (June 30, 2016).

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

9. **GASB Statement No. 80 “Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14.”** The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (June 30, 2016).
10. **GASB Statement No. 81 “Irrevocable Split-Interest Agreements.”** The requirements of this Statement are effective for periods beginning after December 15, 2016 (June 30, 2016).
11. **GASB Statement No. 82 “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.”** The requirements of this Statement are effective for reporting periods beginning after June 15, 2016 (June 30, 2016), except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (June 30, 2016).

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

### W. Financial statement reclassifications

Certain reclassifications have been made to the information presented for the fiscal year ended June 30, 2015 in order to make the data comparable to the current year classifications.

### X. Subsequent events

Subsequent events have been evaluated through June 14, 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.

## 2. CASH AND CASH EQUIVALENTS (CONTINUED)

**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. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. 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 by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollateralized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

Therefore, the Municipality's management has concluded that, at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

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

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

**Deposits** – At year-end, the Municipality’s bank balance of deposits in commercial banks amounting to \$7,321,013 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality’s name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to \$15,284,438 as of June 30, 2015. The Municipality maintains its deposits in various commercial banks located in Puerto Rico and Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB.

**3. RECEIVABLES**

**Other receivables**

The \$40,129 reported in the general fund as other accounts receivable as of June 30, 2015 is composed of construction excise taxes due at year end.

The \$900 reported in the “Las Acerolas” special community fund corresponds to accrued interest revenue as of June 30, 2015.

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

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

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund – General fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – Property taxes	\$ 608,983	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	60,932	
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – Property taxes	318,199	
<b><u>Other Governmental Funds:</u></b>		
P.R. Department of Labor and Human Resources – Law No. 52 & 82	153,157	
P.R. Office of Ombudsman Administration (OAP) - Special Program for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers		27,514
U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants		12,332
U.S. Department of Health and Human Resources – Community Services Block Grant		39,226
Others	5,079	68,368
	<u>\$ 1,146,350</u>	<u>\$ 147,440</u>

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

4. DUE FROM (TO) GOVERNMENTAL ENTITIES

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

Description	Commonwealth Government
<b>Major fund – General fund:</b>	
P.R. Aqueduct and Sewer Authority (PRASA)	\$ 791,068
P.R. General Services Administration	18,270
Association of Employees of the Commonwealth of Puerto Rico	19,174
P.R. Industrial Development Company (PRIDCO)	40,000
	<b>\$ 868,512</b>

5. INTERFUND TRANSACTIONS

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

a. Due from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Bond Issuances for Capital Projects Fund	Reimbursable expenditures	\$ 108,997
General Fund	Other Governmental Funds	Short-term borrowings	563,463
General Fund	Proprietary Fund	Short-term borrowings - Municipal Enterprise	110,000
Las Acerolas Special Community Fund	General Fund	Short-term borrowings	200,000
Other Governmental Funds	General Fund	Short-term borrowings	1,259,710
Total			<b>\$ 2,242,170</b>

b. Transfer in/out to other fund

Transfer out	Transfer in	Purpose	Amount
General Fund	Other Governmental Funds	Commitments of funds for special purposes	\$ 75,069
Other Governmental Fund	Section 108 Loan Guarantee Fund	Transfer for debt service payments	677,546
Debt Service Fund	General Fund	Transfer of excess available balance in sinking fund	421,382
Other Governmental Fund	General Fund	Transfer of remaining balances of special funds	8,127
Total			<b>\$ 1,182,124</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2015 are detailed as follows:

	<u>General Fund</u>	<u>Bond Issuances for Capital Projects Fund</u>	<u>Other Governmental funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 2,511,518	\$ 5,468	\$ 130,516	\$ 2,647,502
Accrued liabilities - payroll withholdings	550,088	-	-	550,088
<b>Total</b>	<b>\$ 3,061,606</b>	<b>\$ 5,468</b>	<b>\$ 130,516</b>	<b>\$ 3,197,590</b>

**7. UNEARNED REVENUES**

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

	<u>Amount</u>
<b><u>Major fund – General fund:</u></b>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	<b>\$ 1,193,963</b>
<b><u>Other Governmental Funds:</u></b>	
Federal grants received for which qualifying expenditures have not been incurred:	
Department of Emergency Center -911	\$ 62,561
Special Program for the Aging-Title III, Part B Supportive Services	4,165
Child and Adult Care Food Program	7,845
Housing Opportunities for Persons with AIDS (HOPWA)	3,824
Child Care and Development Block Grant	18,803
	<b>\$ 97,198</b>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

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

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

	<u>Property Taxes</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund - General fund:</u></b>			
Municipal Revenues Collection Center (CRIM)	\$ 608,983	\$ -	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement		60,932	
P.R. Governmental Development Bank (GDB)-Sales and use taxes		110,068	
P.R. Office of Ombudsman Administration (OAP) - Special Program for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers			27,514
U.S. Department of Health and Human Resources – Community Services Block Grant			39,226
U.S. Department of Transportation-Federal Transit Grants			58,058
	<u>\$ 608,983</u>	<u>\$ 171,000</u>	<u>\$ 124,798</u>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

9. FUND BALANCE CLASSIFICATIONS

The governmental fund balance classifications and amounts at June 30, 2015 are shown in the following table:

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
Restricted:							
Health, public works and sanitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,010,643	\$ 3,010,643
Public safety						141,080	141,080
Culture, recreation and education						5,049	5,049
Public housing and welfare						34,414	34,414
Urban and economic development				2,383,071		(19,831)	2,363,240
Debt service		4,225,286					4,225,286
Capital outlays			8,605,376		1,414,981		10,020,357
General government and other purposes						11,375	11,375
Unassigned	(4,355,140)						(4,355,140)
Total Fund Balance	<u>\$ (4,355,140)</u>	<u>\$ 4,225,286</u>	<u>\$ 8,605,376</u>	<u>\$ 2,383,071</u>	<u>\$ 1,414,981</u>	<u>\$ 3,182,730</u>	<u>\$ 15,456,304</u>

10. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 13,390,209	\$ -	\$ -	\$ 13,390,209
Construction in progress	9,183,737			9,183,737
<b>Total capital assets not being depreciated</b>	<b>22,573,946</b>	<b>-</b>	<b>-</b>	<b>22,573,946</b>
Capital assets, being depreciated:				
Buildings, structures and site improvements	18,787,664			18,787,664
Infrastructure	22,397,955			22,397,955
Vehicles	3,620,660	18,000	(29,280)	3,609,380
Machinery, equipment, furniture and fixtures	11,104,208	99,697	(251)	11,203,654
<b>Total capital assets being depreciated</b>	<b>55,910,487</b>	<b>117,697</b>	<b>(29,531)</b>	<b>55,998,653</b>
<b>Less accumulated depreciation for:</b>				
Buildings, structures and site improvements	(5,926,360)			(5,926,360)
Infrastructure	(6,592,028)			(6,592,028)
Vehicles	(300,155)			(300,155)
Machinery, equipment, furniture and fixtures	(10,600,434)			(10,600,434)
<b>Total accumulated depreciation</b>	<b>(23,418,977)</b>	<b>-</b>	<b>-</b>	<b>(23,418,977)</b>
<b>Total capital assets being depreciated, net</b>	<b>32,491,510</b>	<b>117,697</b>	<b>(29,531)</b>	<b>32,579,676</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 55,065,456</b>	<b>\$ 117,697</b>	<b>\$ (29,531)</b>	<b>\$ 55,153,622</b>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 710,181	\$ -	\$ -	\$ 710,181
<b>Total capital assets not being depreciated</b>	<b>710,181</b>	<b>-</b>	<b>-</b>	<b>710,181</b>
Capital assets, being depreciated:				
Buildings, structures and site improvements	1,900	7,500		9,400
Vehicles	429,000			429,000
Machinery, equipment, furniture and fixtures	179,351	36,285		215,636
<b>Total capital assets being depreciated</b>	<b>610,251</b>	<b>43,785</b>	<b>-</b>	<b>654,036</b>
<b>Less accumulated depreciation for:</b>				
Buildings, structures and site improvements	(24)	(798)		(822)
Vehicles	(10,725)	(21,450)		(32,175)
Machinery, equipment, furniture and fixtures	(8,965)	(12,492)		(21,457)
<b>Total accumulated depreciation</b>	<b>(19,714)</b>	<b>(34,740)</b>	<b>-</b>	<b>(54,454)</b>
<b>Total capital assets being depreciated, net</b>	<b>590,537</b>	<b>9,045</b>	<b>-</b>	<b>599,582</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 1,300,718</b>	<b>\$ 9,045</b>	<b>\$ -</b>	<b>\$ 1,309,763</b>

**10. CAPITAL ASSETS (CONTINUED)**

The Land in the amount \$710,181 and net equipment and facilities in the amount of \$599,582 that are reported in the business-type column of the government-wide Statement of Net Position and in the Proprietary Fund's Statement of Position are the sole property of the Municipality of Toa Alta. The Municipality has transferred only the use of such facilities and equipment to the Municipal Enterprise as part of the collaborative agreement signed for the administration and operation of the landfill. Depreciation expense for the year ended June 30, 2015 amounted to \$34,740.

**11. LONG-TERM LIABILITIES**

**A. Summary of long-term debt activity**

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

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General and special obligation bonds payable	\$ 25,535,000	\$ -	\$ (840,000)	\$24,695,000	\$ 895,000
General and special obligation notes payable	5,945,000		(880,000)	5,065,000	690,000
Section 108 Loan Guarantee notes payable	7,013,000		(334,000)	6,679,000	352,000
Notes payable to CRIM – financing of property tax advances (Law No. 42)	1,042,343		(31,376)	1,010,967	33,346
Notes payable to CRIM – financing of delinquent accounts (Law No. 146)	203,997		(11,333)	192,664	11,333
Compensated absences	1,933,993	156,111	(199,857)	1,890,247	200,000
Christmas bonus	221,865	259,054	(221,865)	259,054	259,054
P.R. Department of Treasury- Income tax withholdings debt		78,452	(22,883)	55,569	39,226
Claims and judgments	668,508	221,132	(620,968)	268,672	47,540
Landfill obligation	7,253,281			7,253,281	
<b>Total</b>	<b>\$ 49,816,987</b>	<b>\$ 714,749</b>	<b>\$ (3,162,282)</b>	<b>\$ 47,369,454</b>	<b>\$ 2,527,499</b>

## 11. LONG-TERM LIABILITIES (CONTINUED)

### B. Legal debt margin

For general obligation debt, the Municipality is subject to a legal debt margin requirement of 10% of the total assessment value of the property located within the Municipality. For special obligation debt, this debt margin cannot exceed 10% of the average recurring operating revenues generated by the Municipality within the last two preceding fiscal years. For obligations to be financed through the "Municipal Redemption Fund IVU," the debt margin is determined based on the repayment capacity of each Municipality. Long-term debt, except for general and special obligation bonds and notes and Section 108 Loan Guarantee notes payable, is paid with unrestricted funds.

### C. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2015 amount to \$24,695,000 and \$5,065,000, respectively. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. The Municipality levies an annual additional special ad valorem tax of three and a half percent (3.50%) and four and a half percent (4.50%) of the assessed value of real and personal property, respectively. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" at the GDB to finance loans to Municipalities subject to restrictions imposed by law. The proceeds of the additional special ad valorem tax and of 0.2% sales and use tax are deposited in sinking funds established at GDB to redeem the bonds and notes payable of the Municipality in minimum annual or semiannual principal and interest payments, whereby sufficient funds are set aside in order to cover the projected debt service requirements, before any new bonds are issued.

Principal and interest payments on long-term debt are made through CAE sinking fund except general and special obligation bonds and notes \$305,000, \$3,960,000, \$1,910,000 and \$625,000, which are made through the "Municipal Redemption Fund (IVU)".

These bonds and notes are mainly issued to provide funds for the acquisition of equipment, construction of major capital facilities and for road paving.

A detail of the general and special obligation bonds and notes outstanding as of June 30, 2015 follows:

11. LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable

Description	Outstanding Balance
1994 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$330,000 due in installments of \$5,000 to \$30,000 through July 1, 2019, with interest rates ranging from 6.11% to 8.21% (8.21% at June 30, 2015)	\$ 125,000
1995 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$485,000 due in installments of \$5,000 to \$45,000 through July 1, 2020, with interest rates ranging from 5.10% to 6.63% (6.58% at June 30, 2015)	215,000
1995 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$205,000 due in installments of \$5,000 to \$20,000 through July 1, 2020, with interest rates ranging from 5.10% to 6.63% (6.58% at June 30, 2015)	90,000
1997 General obligation bond for construction and purchase of capital assets with an original amount of \$1,230,000 due in installments of \$15,000 to \$105,000 through July 1, 2021, with interest rates ranging from 4.87% to 6.56% (6.29% at June 30, 2015)	600,000
1998 General obligation bond for construction and purchase of capital assets with an original amount of \$625,000 due in installments of \$10,000 to \$55,000 through July 1, 2022, with interest ranging from 4.87% to 6.56% (6.29% at June 30, 2015)	335,000
2000 General obligation bond for construction and purchase of capital assets with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2025, with interest rates ranging from 1.23% to 6.00% (1.27% at June 30, 2015)	340,000
2001 General obligation bond for construction and purchase of capital assets with an original amount of \$2,105,000 due in installments of \$75,000 to \$230,000 through July 1, 2016, with interest rates ranging from 2.70% to 4.91% (4.80% at June 30, 2015)	440,000
2006 General obligation bond for construction and purchase of capital assets with an original amount of \$2,275,000 due in installments of \$35,000 to \$185,000 through July 1, 2031, with interest rates ranging from 1.48% to 7.00% (1.52% at June 30, 2015)	1,905,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$305,000 due in installments of \$5,000 to \$30,000 through July 1, 2035, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	285,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$3,960,000 due in installments of \$60,000 to \$335,000 through July 1, 2035, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2015)	3,700,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$1,910,000 due in installments of \$25,000 to \$160,000 through July 1, 2035, with interest rates ranging from 6.00% to 6.50% (6.00% at June 30, 2015)	1,790,000
2010 General obligation bond for construction and purchase of capital assets with an original amount of \$5,230,000 due in installments of \$160,000 to \$520,000 through July 1, 2027, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	4,510,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2012 General obligation bond for construction and purchase of capital assets with an original amount of \$8,210,000 due in installments of \$50,000 to \$1,470,000 through July 1, 2031, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2015)	8,110,000
2012 General obligation bond for construction and purchase of capital assets with an original amount of \$2,370,000 due in installments of \$60,000 to \$465,000 through July 1, 2026, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2015)	2,250,000
<b>Total</b>	<b>\$ 24,695,000</b>

The annual debt service requirements to maturity for bonds payable as of June 30, 2015 are as follows:

June 30,	Principal	Interest
2016	\$ 895,000	\$ 1,281,016
2017	980,000	1,571,814
2018	800,000	1,513,674
2019	825,000	1,458,578
2020	900,000	1,399,989
2021-2025	5,820,000	5,979,048
2026-2030	8,640,000	3,356,275
2031-2035	5,310,000	754,625
2036-2040	525,000	17,212
<b>Total</b>	<b>\$ 24,695,000</b>	<b>\$ 17,332,231</b>

Notes Payable

Description	Outstanding Balance
2008 General obligation note for construction and purchase of capital assets with an original amount of \$770,000 due in installments of \$90,000 to \$135,000 through July 1, 2016, with interest rates ranging from 4.75% to 6.00% (4.75% at June 30, 2015)	\$ 260,000
2009 General obligation note for construction and purchase of capital assets with an original amount of \$805,000 due in installments of \$90,000 to \$145,000 through July 1, 2016, with interest rates ranging from 4.75% to 6.00% (4.75% at June 30, 2015)	275,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2012 General obligation note for construction and purchase of capital assets with an original amount of \$2,515,000 due in installments of \$55,000 to \$890,000 through July 1, 2020, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2015)	2,405,000
2012 General obligation note for construction and purchase of capital assets with an original amount of \$840,000 due in installments of \$145,000 to \$195,000 through July 1, 2017, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	540,000
2013 General obligation note for construction and purchase of capital assets with an original amount of \$1,160,000 due in installments of \$130,000 to \$205,000 through July 1, 2020, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	1,030,000
2013 Special obligation note for construction and purchase of capital assets with an original amount of \$625,000 due in installments of \$70,000 to \$115,000 through July 1, 2020, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	555,000
<b>Total</b>	<b>\$ 5,065,000</b>

The annual debt service requirements to maturity for notes payable as of June 30, 2015 are as follows:

June 30,	Principal	Interest
2016	\$ 690,000	\$ 278,281
2017	740,000	280,819
2018	750,000	228,338
2019	770,000	174,338
2020	905,000	115,706
2021-2025	1,210,000	42,037
<b>Total</b>	<b>\$ 5,065,000</b>	<b>\$ 1,119,519</b>

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

11. LONG-TERM LIABILITIES (CONTINUED)

D. Other long-term liabilities

**Section 108 Loan Guarantee notes payable** – The Municipality entered into a financing agreement with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. This agreement was issued on June 12, 2008 in the amount of \$7,886,000 for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery. This note is payable in annual installments of \$271,000 to \$658,000 through August 1, 2028, bearing interest rates ranging from 3.44% to 5.42% (4.33% at June 30, 2015). The payment of principal and interest of this note is made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program. Debt service requirements in future years are as follows:

Outstanding  
Amount

\$ 6,679,000

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 352,000	\$ 329,011
2017	371,000	313,080
2018	390,000	295,878
2019	411,000	277,492
2020	434,000	257,429
2021-2025	2,543,000	925,837
2026-2030	2,178,000	211,295
<b>Total</b>	<b><u>\$ 6,679,000</u></b>	<b><u>\$ 2,610,022</u></b>

Outstanding  
Amount

**Note payable to CRIM - Financing of property tax advances (Law No. 42)** – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owed to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law No. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On July 1, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$1,293,911, bearing interest at 6.1875% and due on July 1, 2032. Debt service requirements in future years are as follows:

\$ 1,010,967

11. LONG-TERM LIABILITIES (CONTINUED)

June 30,	Principal	Interest
2016	\$ 33,346	\$ 62,046
2017	35,441	59,950
2018	37,668	57,724
2019	40,035	55,357
2020	42,550	52,841
2021-2025	256,377	220,581
2026-2030	347,699	129,260
2031-2033	217,851	20,630
<b>Total</b>	<b>\$ 1,010,967</b>	<b>\$ 658,389</b>

**Outstanding  
Amount**

**Note payable to CRIM - Financing of delinquent accounts (Law No. 146) –**

On July 7, 2007, the Municipality entered into a restructured financing agreement with the CRIM in the amount of \$283,362, to finance the remaining balance of delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The original agreement signed in July 2002 was in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR). As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years, any collection from those delinquent accounts was credited to the loan principal. After the five year period, the loan outstanding balance was restructured for a twenty-five years period at an interest rate of 2.50% ending on March 31, 2032. Debt service requirements in future years are as follows:

**\$ 192,664**

June 30,	Principal	Interest
2016	\$ 11,333	\$ 4,824
2017	11,333	4,541
2018	11,333	4,257
2019	11,333	3,973
2020	11,333	3,689
2021-2025	56,666	14,189
2026-2030	56,666	7,095
2031-2033	22,667	851
<b>Total</b>	<b>\$ 192,664</b>	<b>\$ 43,419</b>

11. LONG-TERM LIABILITIES (CONTINUED)

	<u>Outstanding Amount</u>
<b>Compensated absences</b> - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	<u>\$ 1,890,247</u>
<b>Christmas bonus</b> - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015.	<u>\$ 259,054</u>
<b>Claims and judgments</b> - represents the estimated loss of legal cases to be paid subsequent to June 30, 2015. The awarded amount, if any, will be paid with unrestricted funds.	<u>\$ 268,672</u>
<b>P.R. Department of Treasury-Income tax withholdings debt</b> – On October 2014, the Municipality signed a payment plan agreement with the agency for \$131,452. This amount includes principal, interest, fines and surcharges arising from debts for income tax withholdings to employees for the period of April 2014 and professional services withholdings of 7% for the period of January 2013. Payments of \$3,269 are withheld by the “CRIM” from the monthly advances made to the Municipality from December 2014 through November 2016. This is the balance as of June 30, 2015.	<u>\$ 55,569</u>
<b>Landfill Obligation-</b> State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has recognized as other long-term debt the current estimate for landfill closure and post-closure costs as of June 30, 2015. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. No sinking fund has been established for the payment of these costs.	<u>\$ 7,253,281</u>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

## 12. LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill which requires the application of the provisions set forth in Statement No. 18, issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality is required to perform a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post-closure care costs as an operating expense in each period until the landfill ceases its operations based on the updated estimates provided by the study.

However, the Municipality of Toa Alta has not performed such study and, as of June 30, 2015, has reported a liability for closure and post-closure care costs in the amount of \$7,253,281 based on the percentage used of the estimated capacity of the landfill in previous years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Municipality expects to finance this obligation with an assignment from the central government and federal funds. In addition, the Solid Waste Disposal Administration of Puerto Rico approved a grant for the Municipality in the amount of \$ 1,000,000 to be used for the landfill closing costs.

## 13. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2015 are 8.53% for personal property and 11.53% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	4.50%
Total tax rate:	8.53%	11.53%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
<b>Total percent to be paid by taxpayers:</b>	<b>8.33%</b>	<b>11.33%</b>

### 13. PROPERTY TAXES (CONTINUED)

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Puerto Rico Department of Treasury assumes payment of the basic tax to the Municipality, except for residential units assessed at less than \$3,500 on which a complete exemption is granted. Revenue related to exempt property is recorded in the General Fund. The Municipality grants a complete exemption from personal property taxes up to an assessment value of \$50,000 to retailers with annual net sales of less than \$150,000.

The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. This distribution includes advances of property tax and amounts of municipal equalization fund from the Commonwealth government.

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. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net receivable of \$608,983 resulting from the final settlement of fiscal year 2015 recorded as deferred inflows of resources in the governmental funds statements since is not available as required by current standards.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2014-15, the Municipality received revenues from this property tax amnesty in the amount of \$141,805.

### 14. 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:

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

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

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

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

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

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

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

#### 14. SALES AND USE TAX (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.

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

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

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

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

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

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

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

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 Toa Alta, the implementation date was February 1, 2015. The Municipality has a net receivable of \$110,068 resulting from the final settlement of the 1% sales and use tax for the fiscal year 2014-15, which was recognized as a deferred inflow of resources. For the FDM and FRM transfers, final settlements differences between advances and collections were immaterial.

**15. INTERGOVERNMENTAL REVENUES - GENERAL FUND**

**A. Intergovernmental revenues in the general fund are comprised of the following:**

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$ 3,669,427
Amount of Christmas bonus contribution by Commonwealth	317,960
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	<u>2,493,799</u>
	<u><b>\$ 6,481,186</b></u>

**16. 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.

## 16. PENSION PLAN (CONTINUED)

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 \$655,871.

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 \$166,774, of which \$31,270 (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).

## 16. PENSION PLAN (CONTINUED)

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

## 17. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in **Note 16**, 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 \$252,218, of which \$93,525 (37%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

## 18. COMMITMENTS

### A. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to approximately \$156,600. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

### B. Construction

The Municipality has commitments at June 30, 2015 of \$9 million for construction, improvements or renovation of certain municipal facilities.

## 19. CONTINGENCIES

### A. Federal and State grants

Projects financed by Federal and State Grants are subject to audits by grantors and other governmental agencies in order to determine that the expenditures to comply with the conditions of such grants. It is the Municipality's opinion that no additional material unrecorded liabilities will arise from audits previously performed or to be performed.

### B. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of various legal cases as of June 30, 2015 and not to be covered by insurance, the Municipality accrued an estimated loss of \$268,672 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

## 20. 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. The Plan was updated on January 18, 2016 to include revised projections from fiscal year 2016 to fiscal year 2020 to account for year-to-date actual results and at the request of creditors, extended the updated FEGP projections by another five years to fiscal year 2025.

### **Nonpayment of Puerto Rico Public Finance Corporation (PFC) Bonds**

On July 15, 2015, PFC filed a notice with Electronic Municipal Market Access (EMMA) indicating that the Legislative Assembly had not included in the approved budget for fiscal year 2016 the funds necessary to pay principal and interest on all outstanding PFC bonds. Such appropriation is the sole source of payment of principal and interest on PFC bonds.

The first payment of debt service on PFC bonds for fiscal year 2016 came due on August 3, 2015, on which date the PFC made a partial payment of interest in the amount of \$628,000 (of the approximately \$58 million payment due on that date) from funds held by PFC representing funds remaining from prior legislative appropriations. As of February 1, 2016, PFC had missed payments of debt service on its bonds in the aggregate amount of approximately \$86.5 million.

## 20. SUBSEQUENT EVENT (CONTINUED)

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

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

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

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

### **Puerto Rico Emergency Moratorium and Financial Rehabilitation Act**

On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (“Act No. 21”). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth and its component units. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension at the Governor’s discretion. The moratorium and stay provisions of Act No. 21 require executive action of the Governor to become effective.

Act No. 21 also included amendments to Governmental Development Bank’s (GDB) organic act to include certain statutory options and tools useful for any resolution, reorganization or restructuring that GDB may undertake in the future. Specifically, these amendments modernize the receivership provision in the GDB’s organic act and authorize the creation of a temporary “bridge bank” to carry out the GDB’s functions and honor deposits.

Act No. 21 also created a new fiscal agency and financial advisory authority to assume GDB’s role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities.

## 20. SUBSEQUENT EVENT (CONTINUED)

### **Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Continued)**

Pursuant to Act No. 21, on April 8, 2016 the Governor signed an executive order, EO-2016-010 ("EO 10"), declaring GDB to be in state of emergency. In accordance with the emergency powers provided in Act No. 21, EO 10 implemented regulatory framework governing GDB's operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit by GDB. To that effect, EO 10 restricts the withdrawal, payment and transfer of funds held on deposit in GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements.

The procedures implemented by EO 10 result in restrictions on the ability of the Commonwealth and its component units to withdraw funds held on deposit at GDB. On April 1, 2016, the Commonwealth began depositing its revenues in accounts outside the GDB. However, the Puerto Rico Treasury Department still has funds deposited at GDB, subject to the limitations on withdrawals of funds from GDB.

On April 30, 2016, the Governor signed an executive order, EO-2016-014 ("EO 14"), which declared a payment moratorium with respect to certain obligations of GDB. EO 14 also declared an emergency period with respect to certain obligations of Puerto Rico Infrastructure Finance Authority (PRIFA) that are secured by a letter of credit issued by GDB. Pursuant to EO 14, on May 1, 2016, GDB failed to make a principal payment of approximately \$367 million in respects of its notes.

### **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)**

U.S. Congress HR 5278, "Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) addresses Puerto Rico's debt by establishing an oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects.

The bill establishes the Financial Oversight and Management Board to oversee the development of budgets and fiscal plans for Puerto Rico's instrumentalities and government. The board may issue subpoenas, certify voluntary agreements between creditors and debtors, seek judicial enforcement of its authority, and impose penalties.

The board's responsibilities include: approving the governor's fiscal plan; approving annual budgets; enforcing budgets and ordering any necessary spending reductions; and reviewing laws, contracts, rules, regulations, or executive orders for compliance with the fiscal plan. The bill establishes procedures and requirements for Puerto Rico to restructure its debt and designates the board as the representative of the debtor. The board may initiate a procedure for debt restructuring and submit or modify a plan of adjustment.

The establishment of the board operates as an automatic stay of creditor actions to enforce claims against the government of Puerto Rico.

## 20. SUBSEQUENT EVENT (CONTINUED)

### **Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) (Continued)**

The bill amends the Fair Labor Standards Act of 1938 to permit the governor, subject to the approval of the board, to designate a time period of no more than four years during which employers in Puerto Rico may pay certain employees less than the national minimum wage.

The bill establishes a Revitalization Coordinator to designate critical infrastructure projects that meet specified requirements. Critical projects approved by the oversight board are eligible for an expedited permitting process.

The board shall divide creditors into pools based on the characteristics of the debt, and each pool may vote on a plan to restructure the debt. If at least two-thirds of the outstanding principal amount of a pool agrees with the plan, the pool may file a petition in court to bind the dissenting bondholders to the modification

On June 9, 2016 U. S. Congress House of Representatives passed (PROMESA) and go to the Senate next for consideration.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property tax	\$ 5,514,487	\$ 5,514,487	\$ 5,612,811	\$ 98,324
Municipal license tax	1,500,000	1,500,000	1,939,941	439,941
Municipal sales and use tax	1,501,500	1,501,500	1,053,105	(448,395)
Construction excise tax	807,000	807,000	256,710	(550,290)
Intergovernmental	5,711,382	5,711,382	5,704,549	(6,833)
Fees, fines and charges for services	956,415	956,415	946,507	(9,908)
Interest	770,000	770,000	567,189	(202,811)
Miscellaneous	962,500	962,500	542,237	(420,263)
<b>Total revenues</b>	<b>\$ 17,723,284</b>	<b>\$ 17,723,284</b>	<b>\$16,623,049</b>	<b>(1,100,235)</b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
General government	\$ 11,134,745	\$ 11,083,731	\$ 8,691,742	\$ 2,391,989
Health, public works and sanitation	3,447,354	3,173,335	5,688,039	(2,514,704)
Public safety	2,674,281	2,401,022	1,455,491	945,531
Culture, recreation and education	466,904	1,065,196	526,652	538,544
<b>Total expenditures, encumbrances and other financing uses</b>	<b>\$ 17,723,284</b>	<b>\$ 17,723,284</b>	<b>\$16,361,924</b>	<b>\$ 1,361,360</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>				
	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 261,125</b>	<b>\$ 261,125</b>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,623,049
Differences-budget to GAAP:				
Non-budgeted revenues and other financing sources				3,735,010
<b>Total revenues, special items and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 20,358,059</b>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 16,361,924
Differences-budget to GAAP:				
Non-budgeted expenditures and other financing uses				6,392,181
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 22,754,105</b>

See notes to the 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 assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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

**Line Item #**

<b>Assets</b>	<b>Current Assets Cash:</b>	
111	Cash – Unrestricted	\$ 120,170
<b>100</b>	<b>Total Cash</b>	<u>120,170</u>
121	Accounts Receivable – PHA Projects	1,773
125	Accounts Receivable - Miscellaneous	1,401
<b>120</b>	<b>Total Receivables, Net of Allowances for Doubtful Accounts</b>	<u>3,174</u>
<b>150</b>	<b>Total Current Assets</b>	123,344
<b>Non-Current Assets</b>	<b>Fixed Assets:</b>	
164	Furniture, Equipment & Machinery - Administration	149,579
166	Accumulated Depreciation	<u>(149,579)</u>
<b>160</b>	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>-</u>
<b>180</b>	<b>Total Non-Current Assets</b>	<u>-</u>
<b>190</b>	<b>Total Assets</b>	<u>123,344</u>
<b>290</b>	<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 123,344</u>
<b>Liabilities and Equity</b>	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
312	Accounts Payable <= 90 days	3,908
333	Accounts Payable – Other Government	21,080
<b>310</b>	<b>Total Current Liabilities</b>	<u>24,988</u>
<b>300</b>	<b>Total Liabilities</b>	<u>24,988</u>
<b>Equity</b>	<b>Equity</b>	
508.1	Net Investment in Capital Assets	\$ -
511.1	Restricted Net Position	17,553
512.1	Unrestricted Net Position	80,803
<b>513</b>	<b>Total Equity – Net Position</b>	<u>98,356</u>
<b>600</b>	<b>Total Liab., Def. Inflow of Res., and Equity – Position</b>	<u>\$ 123,344</u>

See notes to the Financial Data Schedule.

**Line Item #**

70600	HUD PHA Operating Grants	\$ 1,062,855
71100	Investment Income - Unrestricted	226
71500	Other Revenue	62,686
72000	Investment Income - restricted	48
<b>70000</b>	<b>Total Revenue</b>	<u>1,125,815</u>
	<b>Expenses</b>	
	<b>Administrative:</b>	
91100	Administrative Salaries	77,742
91200	Auditing Fees	5,860
91500	Employee Benefit Contributions – Administrative	17,507
<b>91000</b>	<b>Total Operating - Administrative</b>	<u>101,109</u>
96200	Other General Expenses	24,596
<b>96000</b>	<b>Total Other General Expenses</b>	<u>24,596</u>
<b>96900</b>	<b>Total Operating Expenses</b>	<u>125,705</u>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	<u>1,000,110</u>
97300	Housing Assistance Payments	968,834
97350	HAP Portability-In	56,035
97400	Depreciation Expense	381
<b>90000</b>	<b>Total Expenses</b>	<u>1,025,250</u>
<b>10000</b>	<b>Excess (Deficiency) of total revenues Over (Under) Total Expenses</b>	<u>(\$ 25,140)</u>
	<b>Memo Account Information:</b>	
*11030	Beginning Equity	\$ 123,653
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	(157)
*11170	Administrative Fee Equity	\$ 80,803
*11180	Housing Assistance Payments Equity	\$ 17,553
*11190	Unit Months Available	177
*11210	Number of Unit Months Available	174

See notes to the Financial Data Schedule.

## 1. BASIS OF PRESENTATION

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 53,278
<b>Total U.S. Department of Agriculture</b>			<b>53,278</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	394,927
Section 8 Housing Choice Voucher	14.871	N/A	1,062,855
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	31,984
<b>Total U.S. Department of Housing and Urban Development</b>			<b>1,489,766</b>
<b>U.S DEPARTMENT OF TRANSPORTATION</b>			
Pass-through the Commonwealth of Puerto Rico- Traffic Safety Comission:			
State and Community Highway Safety	20.600	Not Available	9,160
<b>Total U.S. Department of Transportation</b>			<b>9,160</b>

The accompanying notes are an integral part of this schedule.

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Office of Ombudsman Administration (OAP):			
Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	71,514
Pass-through the Commonwealth of Puerto Rico Department of Family - Administration for the Care and Integral Development of Children (ACUDEN):			
Community Services Block Grant	93.569	Not Available	84,580
Child Care and Development Block Grant	93.575	Not Available	<u>237,413</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>393,507</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u><b>\$ 1,945,711</b></u></u>

The accompanying notes are an integral part of this schedule.

**1. BASIS OF PRESENTATION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

Description	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 1,945,711	\$ 1,945,711
Additional amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program	104,112	104,112
Non-federal awards expenditures	968,361	968,361
Total expenditures, per fund statements	<u>\$ 3,018,184</u>	<u>\$ 3,018,184</u>

**4. LOAN GUARANTEE NOTES PAYABLE**

The Municipality entered into a financing agreement with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. This agreement was issued on June 12, 2008 in the amount of \$7,886,000 for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery.

The following represents the loans outstanding balance as of June 30, 2015:

<u>CFDA No.</u>	<u>Program Name</u>	<u>Loan Outstanding Balance</u>
14.248	Community Development Block Grants-Section 108 Loan Guarantee	<u>\$ 6,679,000</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' REPORT 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 Toa Alta  
Toa Alta, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of **Municipality of Toa Alta, Puerto Rico**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Toa Alta's** basic financial statements and have issued our report thereon dated June 14, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Toa Alta'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 Toa Alta's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Toa Alta'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 considered the deficiencies described in the accompanying schedule of findings and questioned costs as items **2015-001**, **2015-003** and **2015-004** to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, 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** and **2015-005** to be significant deficiencies.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Municipality of Toa Alta's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-001 through 2015-2005 and 2015-008.

We noted certain other matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated June 14, 2016.

**Municipality of Toa Alta's Response to Findings**

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

**Purpose of this Report**

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



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
June 14, 2016

Stamp No. 2728521 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

**INDEPENDENT AUDITORS' 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 Toa Alta  
Toa Alta, Puerto Rico**

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

We have audited **Municipality of Toa Alta's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Municipality of Toa Alta's** major federal programs for the year ended June 30, 2015. The **Municipality of Toa Alta'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 the **Municipality of Toa Alta's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Toa Alta'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 Toa Alta's** compliance.

**Opinion on Each Major Federal Program**

In our opinion, the **Municipality of Toa Alta** 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.

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

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2015-006** and **2014-007**. Our opinion on each major federal program is not modified with respect to these matters.

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

### Report on Internal Control Over Compliance

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

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



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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items 2015-006 and 2015-007, that we consider to be significant deficiencies.

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

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.

We noted certain matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated June 14, 2016.



**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
June 14, 2016

Stamp No. 2728522 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

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

**Financial Statements**

Type of auditor’s report issued:	<b>Unmodified, except for adverse for governmental and business-type activities</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>	No
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>	No
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 <b>X</b>	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant-Entitlement Grant
14.871	Section 8 Housing Choice Vouchers

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

**Section II – Financial Statements Findings**

*Significant deficiencies in internal controls that are considered material weaknesses are indicated as (MW) and those that are instances of noncompliance are indicated as (NC).*

**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: Finance Department Director

<b>Finding Reference</b>	<b>2015-002</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records (NC)</b>
<b>Statement of Condition</b>	During our examination of the Municipality’s accounting system, we noted that the accounting data still requires several reporting adjustments in order to present the Municipality’s financial statements in the modified-accrual basis of accounting and to produce the government-wide financial statements.
<b>Criteria</b>	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Act, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by the Governmental Accounting Standard Board (GASB).
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting system.
<b>Effect of Condition</b>	The Municipality’s accounting system does not provide updated and complete financial information that presents accurately its financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements, could restrict the adequate response of management in financial public affair issues.
<b>Recommendation</b>	We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>As a measurement for achieving an accounting system that provides updated and complete financial information, the Finance and Budget Director will strengthen the existing internal control procedures related to the accounting system. The accounting department will be reorganized in order to ensure the implantation of such control and procedures.</p> <p>Implementation Date: Fiscal Year 2015-2016</p> <p>Responsible Person: Finance Department Director</p>

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-003</b>
<b>Requirement</b>	<b>Municipal landfill closure and post-closure costs obligation recognition (MW) &amp; (NC)</b>
<b>Statement of Condition</b>	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality's government-wide financial statements for the year ended June 30, 2015.
<b>Criteria</b>	GASB Statements No. 18 requires that the Municipality should estimate the closure and post-closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the GASB Statement No. 18 requirements.
<b>Recommendation</b>	We recommend the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Management will update the estimate of closure and post-closure costs of its landfill facilities in order to include an updated liability in the fiscal year 2015-2016 government-wide financial statements.

Implementation Date: Fiscal Year 2015-2016

Responsible Person: Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-004</b>
<b>Requirement</b>	<b>Capital Assets and Expenditures – Subsidiary Ledger (MW) &amp; (NC)</b>
<b>Statement of Condition</b>	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the capital assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities are not determinable.
<b>Criteria</b>	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.
<b>Cause of Condition</b>	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
<b>Effect of Condition</b>	The Municipality’s Government-Wide Financial Statements do not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality for the fiscal year ended June 30, 2015.
<b>Recommendation</b>	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
<b>Questioned Cost</b>	None
<b>Management Response and Corrective Action</b>	The Municipality’s Finance Department staff plans to continue in their effort to update the capital assets subsidiary ledger, principally the construction in progress and infrastructure assets.

Implementation Date: Fiscal Year 2015-2016

Responsible Person: Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-005</b>
<b>Requirement</b>	<b>Operating deficit of general fund (NC)</b>
<b>Statement of Condition</b>	The Municipality closed its fiscal year ended on June, 30, 2015 with a deficit in the general fund of \$4,335,140.
<b>Criteria</b>	In accordance with the Guide for the Administration of Municipalities 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 effort 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>	The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: Still in process

Responsible Person: Finance Department Director

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

<b>Finding Reference</b>	<b>2015-006</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Utility Allowance Schedule</b>
<b>Statement of Condition</b>	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2015. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rates.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category on a yearly basis and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
<b>Cause of Condition</b>	The PHA did not follow the procedures established to review utility rate date each year.
<b>Effect of Condition</b>	The PHA is not in compliance with the Code of Federal Regulations 24, Subpart K, and Section 982.517.
<b>Recommendation</b>	The PHA should evaluate utility allowance rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None.
<b>Management Response and Corrective Action</b>	The Section 8 Program’s personnel updated the utility allowance rates per the federal regulations standards during fiscal year 2015-2016.  Implementation Date: July 1, 2015  Responsible Person: Mr. Antonio Pérez Vázquez-Federal Programs Director

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

<b>Finding Reference</b>	<b>2015-007</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>	The audited financial data schedule (FDS) was not submitted electronically to HUD through the Real Estate Assessment Center (REAC) in the stipulated time. (March 31, 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 Municipality’s audited financial information (Single Audit Report) was not available as of March 31, 2016.
<b>Effect of Condition</b>	The Municipality did not comply with OMB No. 2535-017, 24 CFR Section 5.801.
<b>Recommendation</b>	Procedures should be implemented to ensure that the Municipality complies with the established Federal Regulation, as prescribed by OMB No. 2535-017, 24 CFR Section 5.801.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	<p>The Municipality’s management concurs with the auditors finding and recommendation. Management will work aggressively to comply with submitting the Single Audit Report to regulators on or before March 31, 2017. Also, we will submit the audited Financial Data Schedule (FDS) and other supplementary information to HUD through the Real Estate Assessment Center (REAC) in a timely manner.</p> <p>Responsible Person: Mr. Antonio Pérez Vázquez-Federal Programs Director</p> <p>Implementation Date: March 31, 2017</p>

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

<b>Finding Reference</b>	<b>2015-008</b>
<b>Requirement</b>	<b>Single Audit Act (NC)</b>
<b>Statement of Condition</b>	The Single Audit Report for the fiscal year ended June 30, 2015 was not issued within nine (9) months after the end of the audit period.
<b>Criteria</b>	The Single Audit Act of 1984, as amended, requires that the audit report must be submitted to the Federal Audit Clearinghouse no later than nine (9) months after the end of the audit period.
<b>Cause of Condition</b>	The Municipality's audited financial information was not available as of March 31, 2016.
<b>Effect of Condition</b>	The Municipality could lose federal grants due to the noncompliance with the Single Audit Act requirements.
<b>Recommendation</b>	Procedures should be implemented to ensure that the Municipality complies with the established Federal Regulation, as prescribed by OMB Circular A-133.
<b>Questioned Costs</b>	None
<b>Management Response And Corrective Action</b>	<p>The Municipality's management will improve internal controls procedures related to record keeping and year-adjustments in order to ensure compliance with the March 31 federal requirement.</p> <p>Responsible Person: Finance Department Director and Mr. Antonio Pérez Vázquez- Federal Programs Director</p> <p>Implementation Date: March 31, 2017</p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2014-005	14.871	<p><u>The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2014. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rates.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference <b>2015-006</b>.</p>
2014-006	14.218	<p><u>We performed a Cash Management Test and examined four (4) fund requisitions made during the program year ended on June 30, 2014. Also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:</u></p> <ul style="list-style-type: none"> <li>a) The disbursements related to four (4) requisitions of funds were made between 11 to 14 days after the deposits were made.</li> <li>b) The cash balance shows a higher reconciled balance in the following months: January 2014: \$180,143, March 2014: \$8,849.01, April 2014: \$8,008.48.</li> </ul> <p>Full corrective action was taken.</p>
2014-007		<p><u>The Single Audit Report for the fiscal year ended June 30, 2014 was not issued within nine (9) months after the end of the audit period.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference <b>2015-008</b>.</p>