

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

**MUNICIPIO DE TRUJILLO ALTO  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

---

**COMMONWEALTH OF PUERTO RICO  
AUTONOMOUS MUNICIPALITY OF TRUJILLO ALTO**

---

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

---

**Year Ended June 30, 2015**

---



Municipality of Trujillo Alto, PO Box 1869, Trujillo Alto, Puerto Rico 00977  
Hon. José L. Cruz Cruz

**CONTENTS**

	<b>Page</b>
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Independent Auditors' Report	1-3
Required Supplementary Information (Part 1) Management's Discussion and Analysis	4-16
Government-Wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20
Reconciliation of the Balance Sheet- Governmental Funds to Statement of Net Position	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Notes to Basic Financial Statements	23-56
<b><u>SUPPLEMENTARY INFORMATION</u></b>	
Required Supplementary Information (Part II):	
Budgetary Comparison Schedule-General Fund	57
Notes to Budgetary Comparison Schedule-General Fund	58
Financial Data Schedule – Balance Sheet	59
Financial Data Schedule – Statement of Revenues and Expenses	60
Notes to Financial Data Schedule	61
Schedule of Expenditures of Federal Awards	62
Notes to the Schedule of Expenditures of Federal Awards	63-64

## CONTENTS

	<b>Page</b>
<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>	65-66
Independent Auditors' Report on compliance for each major program and on internal control over compliance required by OMB Circular A-133	67-69
<b><u>FINDINGS AND QUESTIONED COSTS</u></b>	
Schedule of Findings and Questioned Costs	70-78
Summary Schedule of Prior Years Audit Findings	79



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

Member of:

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

## INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and  
the Municipal Legislature  
Autonomous Municipality of Trujillo Alto  
Trujillo Alto, Puerto Rico**

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Special Revenue Fund-Moderate Rehabilitation	Unmodified
Debt Service Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### **Basis for Qualified Opinion on Governmental Activities**

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

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

### **Qualified Opinion**

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

### **Unmodified Opinions**

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

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 16 and Budgetary Comparison information on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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)

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Autonomous Municipality of Trujillo Alto's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages 59 and 60 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 62 through 64 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
January 29, 2016

Stamp No. 2705506 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

The **Autonomous Municipality of Trujillo Alto** is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991, as amended. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived mostly from property taxes, municipal license taxes, sales and use tax, construction projects special charges, subsidies from the Commonwealth of Puerto Rico's General Fund, contributions from the Traditional and Electronic Lottery sponsored by said Government, and the Contribution in Lieu of Taxes (PILOT) that according to Act No. 83, 1941, as amended, the Puerto Rico Electric Power Authority (PREPA) must pay or credit to the Municipalities.

The Municipality is a main component of the San Juan Metropolitan Area, with a population that exceeds 80,000 habitants and presents a continued and consistent potential growth in social and economic activity. Based on this reality, the municipal administration has adopted an ambitious program to promote and develop a capital improvement program which includes, among others, construction and improvement of cultural, recreational, security, and health facilities programmed to be implemented during the current calendar year 2015. Such efforts, complemented by other aggressive initiatives, should strengthen the financial framework of the Municipality. In relation thereto, particular emphasis has been given to increase collections from property taxes, municipal licenses, sales and use tax. The municipal administration feels confident that such efforts will be complemented with the creation of a new private type affiliate corporation under the name of "Empresas Trujillanas", which, under local law, will be able to develop and get involved in the acquisition of private licenses and in the development of large and complex projects for the benefit and welfare of the Municipality constituents. However, it should be noted that efforts to accelerate the indicated programs have been adversely affected by the heavy recession being faced by the Island during more than eight years.

It must be clarified that the results of the aforementioned initiatives must be evaluated upon considering the effects that new legislation approved by the Legislative Assembly such as Act No. 18-2014, Act 19-2014 and Act No.57-2014 might have on the operating revenues of the Municipalities. Implementation of such Acts is still in process and further amendments to Act 57-2014 are anticipated to be confirmed by the Legislative Assembly of informal agreements reached between PREPA and its bondholders. These agreements provide, among other things, for a revitalization of said public corporation including a restructuring of its long term debt. Additional information of such legislation is further explained in the following paragraphs.

This discussion and analysis of the **Autonomous Municipality of Trujillo Alto (the Municipality)** financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. This Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. In addition, this document includes comparative data with prior year as this information was available for the fiscal year ended on June 30, 2014.

This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. A broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provides for an evaluation of its financial condition as of the end of fiscal year 2014-2015 compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's services, construction programs and other activities, and;
5. major or extraordinary events that might cause future changes in the statements of condition and operations of the Municipality;
6. major constraints being faced by the Municipality in obtaining financing for capital improvements program and operating expenses; and,
7. assess management's ability to handle budgetary functions.

## FINANCIAL HIGHLIGHTS

During the fiscal year 2014-2015, the economic environment of the Commonwealth of Puerto Rico continued to suffer the adverse results of a recession that, as previously mentioned, has deeply hurt the local economy during the past 8 years. Considering this economic reality, the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015, reflects the continued decreasing trend of the Municipality's economic strength during the last three years. Some relevant data related thereto is summarized as follows:

1. Total net position of the Municipality as of the end of fiscal year 2015 amounted to \$76,773,155, or fifty two percent (52%) of total assets.
2. The Municipality's total net position at the end of the year decreased by \$(457,559), or a 5% reduction when compared with prior fiscal year 2014, as restated. Such decrease is mainly attributable to a decreased of 10% in current assets.
3. As of the end of fiscal year 2014-2015, the Municipality's Governmental Funds Balance Sheet reflected a combined ending fund balances of \$4,667,410, which represents a decrease of \$2,854,827 when compared with the corresponding figures for the previous fiscal year 2013-2014, as restated. Such reduction was due mainly to a decrease in total revenues by 7%.
4. As of the end of the fiscal year 2014-2015, the deficit of the Municipality's General Fund amounted to \$4,813,343 or \$502,689 above the corresponding figure for previous fiscal year 2014, as restated. Although such balance is mainly attributable to the Puerto Rico prevailing economic constraints, management is aware that in order to improve the Municipality's rate of return, drastic measures must be implemented to increase revenues and reduce current expenses.

## FINANCIAL HIGHLIGHTS (CONTINUED)

Management is aware also that corrective actions will encounter several difficulties since further increases are anticipated in some aspects such as contributions to the Commonwealth Government Pension Funds; certain limitations imposed by law in budget management; limitations in projects financing due to credit downgrading imposed by rating agencies; significant changes approved upon approval of Act 57-2014 which drastically changed the formula for the calculation of the Annual Contribution in Lieu of Taxes (PILOT), the credit by the Puerto Rico Electrical Authority (PREPA) to the Municipalities (PILOT); possible changes to operating income of the Municipality derived from the municipal sales and use tax resulting from Acts No. 18-2014 and 19-2014 which create a new public corporation (Municipal Financing Corporation), as an affiliate to the Governmental Development Bank and which will be responsible for the final collection and distribution of the municipal sales and use tax, changes in the distribution and uses of the Municipal Development and Municipal Redemption Funds resulting from the said legislation; and the proposed new Internal Revenue Code which at present has been under the consideration of the Legislative Assembly.

5. As reflected in the Budgetary Comparison Schedule-General Fund attached hereto, as of June 30, 2015, the actual budgetary activities resulted in a favorable balance of \$749,220. Such balance is mainly attributable to a significant variance in actual revenues which was offset by economies achieved in budgeted expenditures.
6. At the end of fiscal year 2015, total liabilities amounted to \$69,124,588. Out of said amount, \$59,086,723 corresponded to long-term liabilities, of which \$47,000,000 and \$5,297,000 represented the outstanding balance of bonds and notes issued, respectively. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.
7. In spite of difficulties being encountered, the Municipality has maintained an aggressive capital improvement program. As of June 30, 2015, prior year construction work in process included the improvement of several recreational facilities including the Municipal Coliseum, construction of roads, sidewalks and pluvial infrastructure. Current year construction in progress includes \$1 million used for improvements of various recreational facilities and infrastructure, including the design phase for the Diabetes Medical Center and Hospital. However, management is aware that the construction rhythm of its capital improvement program will depend on the municipality's credit availability which has been seriously restrained for the Commonwealth Government of Puerto Rico, its agencies and municipalities due to their bond downgrading executed by the rating agencies.
8. During the year 2004, the Legislative Assembly of Puerto Rico approved Act Number 255. Said Act establishes among other things, a specific formula for the calculation of the annual Contribution in Lieu of Taxes (PILOT) that the Puerto Rico Electric Power Authority (PREPA) must pay or credit to the Municipalities. Such payment, although had been mandatory since the creation of the PREPA, had reflected an erratic trend for many years and got to a point which caused the Municipalities to take legal action against PREPA. The controversy was finally resolved in the year 2004. Part of the agreement provided for the approval of the aforementioned Act. The formula provides, among other things, for a deferred three years payment in those cases in which the annual net revenues of PREPA are not sufficient to make the full payment to the Municipalities. Since the year 2006, the annual payments of PILOT made by PREPA to the Municipalities have showed certain deviations from the formula established by law. The Municipality of Trujillo Alto and the Puerto Rico Mayors Association have raised their written concerns to PREPA's management with respect to this matter. At present, the Commonwealth Government's administration has presented a whole package of new legislation for a huge restructuring of PREPA's operational and regulatory measures. Such legislation includes the implementation of a new formula for the calculation of PILOT which will require all local governmental agencies to attain material savings in power consumption and includes sanctions and penalties for noncompliance with the new legislation.

## FINANCIAL HIGHLIGHTS (CONTINUED)

All this legislative action was approved to help PREPA in solving its critical financial condition. For fiscal year 2014-2015, PILOT credit for the **Autonomous Municipality of Trujillo Alto** amounted to \$4,265,551. Regardless of the final outcome of the formula to compute the CELI to be paid or credit to the Municipalities, management is of the opinion that no legal wording or disposition has been approved by the Legislative Assembly to describe the procedure to be followed by PREPA to pay or credit its accumulated liabilities with the local governments for contribution in lieu of taxes accrued during previous years up to the effective date of the implementation of the new formula. Management feels that the applicable formula should be based on the one described in Act 255-2015.

Considering the prevailing economic scenario, management feels satisfied with the financial condition and results of operations reflected by the audited financial statements prepared as of June 30, 2015. It is its contention that, in spite of the more than eight years of economic recession, the municipal administration has been able to meet all current obligations and has continued an ambitious construction program to keep and expand public essential services to its constituents. However, as previously indicated, management is aware also that such performance might reflect a remarkable continued deterioration, whose escalation might increase due to reasons explained in previous paragraphs.

## 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 fiscal year 2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of the said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

## FINANCIAL STATEMENTS COMPONENTS

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.

The basic financial statements consist of the government-wide financial statements, the major funds financial statements and the notes to the financial statements, which provide details, disclosure and description of the most important items included in said statements. The Statement of Net Position reflects information of the Municipality as a whole on a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year.

Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position as previously mentioned. In the particular case of the **Autonomous Municipality of Trujillo Alto**, as of June 30, 2015, such figure amounted to \$76,773,155, a decrease of \$457,559 over previous year 2014, as restated, and represents fifty two percent (52%) of the total assets.

## FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the Municipality's constituents.

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

A brief review of the Statement of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to \$40,180,500. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that the amount of \$8,418,710 was derived from the following sources: \$472,179 charges for services; \$7,688,640 from operating grants and contributions; and \$257,891 from capital grants and contributions obtained from other sources. General revenues for the year amounted to \$31,304,231. When such figure is added to the \$8,418,710 previously mentioned, total revenues available for the financing of activities amounted to \$39,722,941. There was a deficiency of revenues over expenses in the amount of \$457,559.

The Fund Financial Statements are another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The Municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only, instead of the government as a whole.

Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified-accrual accounting, which measures cash and all other financial assets that can be readily converted into cash.

The fund 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.

## **INFRASTRUCTURE ASSETS**

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, 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 Statement of Net Position. As of July 1, 2002, the Municipality commenced the prospective reporting of infrastructure assets. During the previous fiscal years, the Municipality reported historical costs of infrastructure assets amounting to \$40,535,146 including accumulated depreciation for \$20,590,523. This year, depreciation expense for this classification amounted to \$1,895,192. Net value of infrastructure assets as of fiscal year end 2015 amounted to \$18,439,459 and represents to 14% of capital assets.

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

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

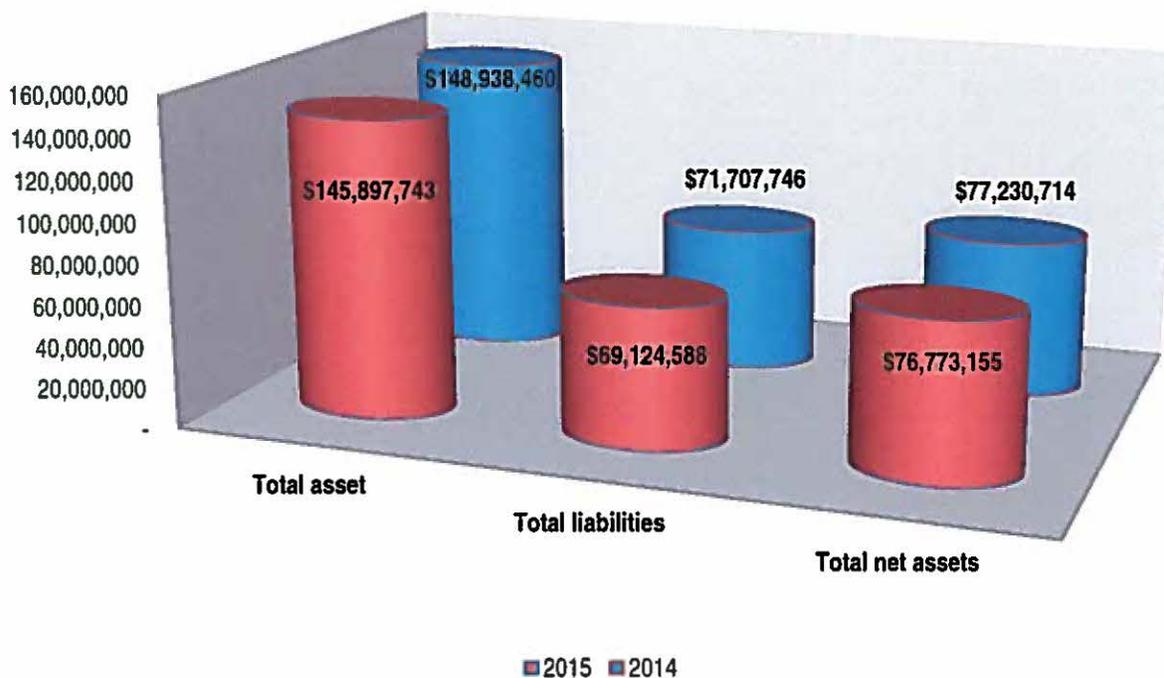
### **Net position**

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Autonomous Municipality of Trujillo Alto**, primary government assets exceeded total liabilities by \$76,773,155 at the end of 2015, as compared with \$77,230,714, as restated, which reflect a decrease of \$457,559 over previous fiscal year. The following condensed Statements of Net Position of the Primary Government shows on a comparative basis the most important components of the \$(457,559) decrease reflected in the net position figure.

***SPACE INTENTIONALLY LEFT IN BLANK.***

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

<b>Condensed Statement of Net position</b>	<b>2015</b>	<b>2014, as restated</b>	<b>Increase (Decrease)</b>	<b>%</b>
Current and other assets	\$ 16,053,184	\$ 17,980,161	\$ (1,926,977)	(10)%
Capital assets	129,844,559	130,958,299	(1,113,740)	(1)%
<b>Total assets</b>	<b>145,897,743</b>	<b>148,938,460</b>	<b>(3,040,717)</b>	<b>(2)%</b>
Current and other liabilities	10,037,865	9,420,404	617,461	6%
Long-term liabilities	59,086,723	62,287,342	(3,200,619)	(5)%
<b>Total liabilities</b>	<b>69,124,588</b>	<b>71,707,746</b>	<b>(2,583,158)</b>	<b>(3)%</b>
Net investment in capital assets	75,008,559	78,349,299	(3,340,740)	(4)%
Restricted	9,461,118	13,440,779	(3,979,661)	(30)%
Unrestricted deficit	(7,696,522)	(14,559,364)	6,862,842	47%
<b>Total net position</b>	<b>\$ 76,773,155</b>	<b>\$ 77,230,714</b>	<b>\$ (457,559)</b>	<b>(5)%</b>



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

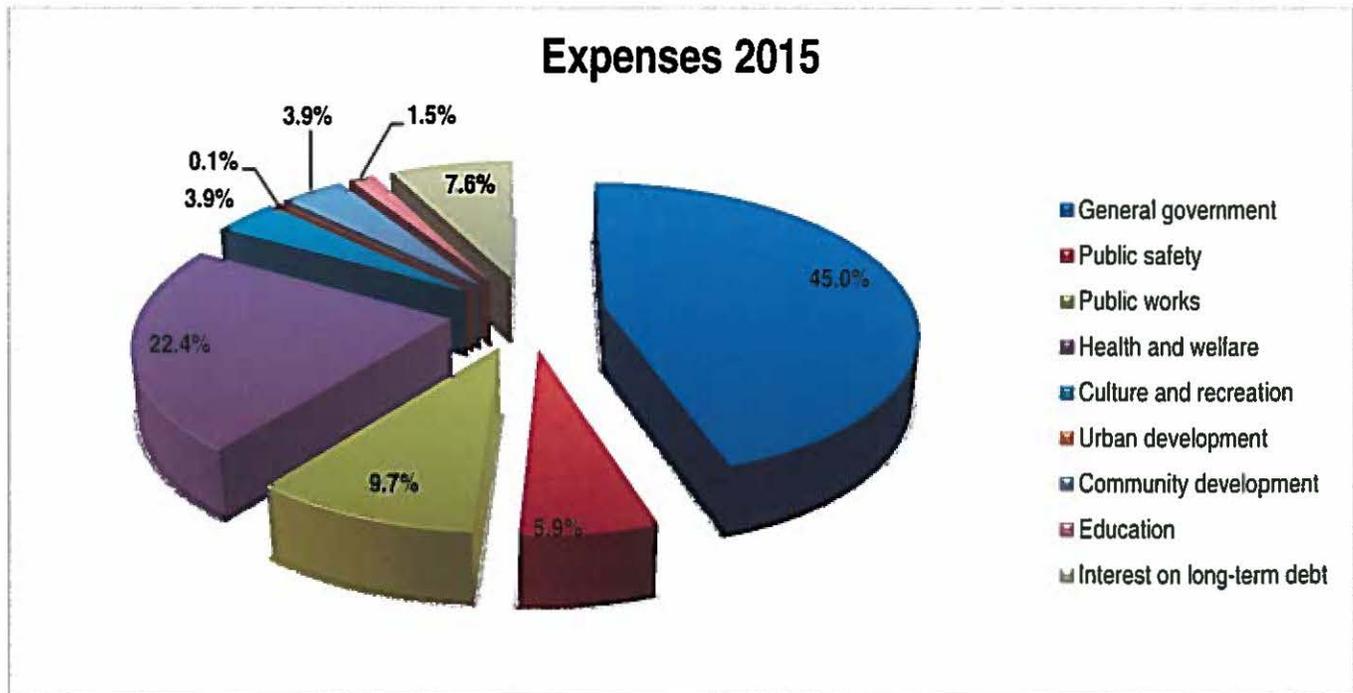
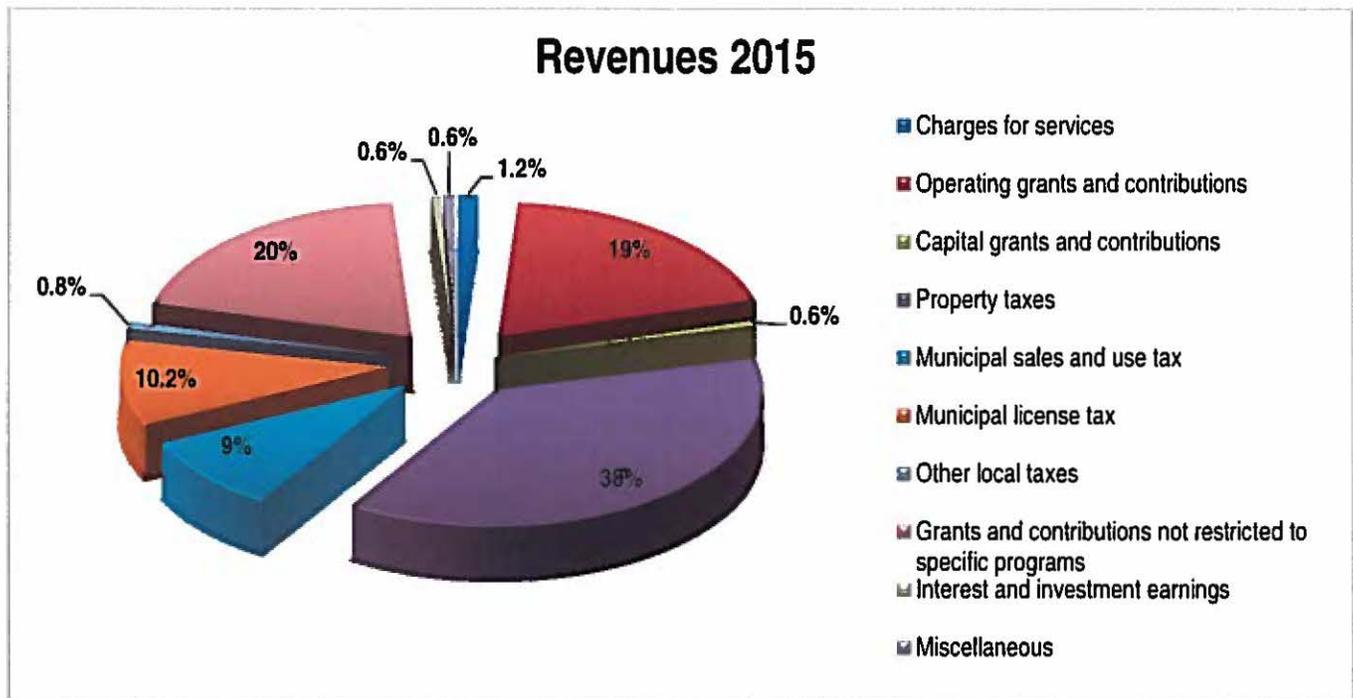
### Changes in net position

The Statement of Activities reflects that, for fiscal year 2015, the net effect of the revenues derived from several programs plus current operating expenses, amounted to a deficit of \$457,559. As previously stated, such amount constituted a decrease in the Municipality's net position. However, when compared with previous fiscal year 2013-2014, as restated, the reduction in the negative Change in Net Position amounted to \$1,200,677. Such improvement constitutes evidence of the effective savings in current expenses program implemented by management. Approximately fifty-eight percent (58%) of the Municipality's total revenue came from taxes, while thirty-nine percent (39%) resulted from grants and contributions, including federal aid. Charges for services provided one percent (1%) and interest revenue less than one percent of total revenues. The Municipality's largest expenses included items such as general government, health and welfare services, public works, community development, public safety, and waste disposal. The following table and graphic presentation includes in absolute and relative terms, the composition of revenues and expenses for the fiscal years ended on June 30, 2015 and 2014. Such analysis helps the reader to evaluate the Municipal administration's performance in the management of its current financial operations.

Upon examination of the following comparative table, it is relevant to emphasize that the \$3,045,725 decrease in Total Revenues during 2015 was significantly compensated by a reduction of \$4,246,402 reflected in General Expenses. The net difference between two figures for both fiscal years amounting to \$1,200,677 represent a reduction in the negative quantitative effect in the Municipality's Net Position caused by the operating deficit.

Condensed Statement of Activities	2015	2014, as restated	Increase (Decrease)	%
<b>Program revenues:</b>				
Charges for services	\$ 472,179	\$ 505,321	\$ (33,142)	(7)%
Operating grants and contributions	7,688,640	7,771,646	(83,006)	(1)%
Capital grants and contributions	257,891	791,313	(533,422)	(67)%
<b>General revenues:</b>				
Property taxes	14,987,094	14,883,577	103,517	1%
Municipal sales and use tax	3,589,653	3,506,100	83,553	2%
Municipal license tax	4,047,047	4,043,946	3,101	0.1%
Other local taxes	333,942	586,604	(252,662)	(43)%
Grants and contributions not restricted to specific programs	7,870,427	8,749,270	(878,843)	(10)%
Interest	218,832	318,302	(99,470)	(31)%
Miscellaneous	257,236	1,612,587	(1,355,351)	(84)%
<b>Total revenues</b>	<b>39,722,941</b>	<b>42,768,666</b>	<b>(3,045,725)</b>	<b>(7)%</b>
<b>Expenses:</b>				
General government	18,071,461	17,467,788	603,673	3%
Public safety	2,381,760	2,034,670	347,090	17%
Public works	3,916,144	9,046,688	(5,130,544)	(57)%
Culture and recreation	1,575,654	1,001,353	574,301	57%
Economic development	-	24,341	(24,341)	(100)%
Health and welfare	8,997,738	9,931,538	(933,800)	(9)%
Community development	1,557,793	1,011,260	546,533	54%
Education	609,911	656,499	(46,588)	(7)%
Urban development	36,301	-	36,301	100%
Interest on long-term debt	3,033,738	3,252,765	(219,027)	(6)%
<b>Total expenses</b>	<b>40,180,500</b>	<b>44,426,902</b>	<b>(4,246,402)</b>	<b>(9)%</b>
Change in net position	(457,559)	(1,658,236)	1,200,677	72%
<b>Net position, beginning of year, as restated</b>	<b>77,230,714</b>	<b>78,888,950</b>	<b>(1,658,236)</b>	<b>(2)%</b>
<b>Net position, end of year</b>	<b>\$ 76,773,155</b>	<b>\$ 77,230,714</b>	<b>\$ (457,559)</b>	<b>(5)%</b>

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



## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

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

### Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, 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 \$4,667,410, which represents a decrease of \$2,854,827 when compared with the prior year, as restated. Such decrease is mainly attributable to the reduction in the current assets. The combined fund balances include restricted fund balance amounting to \$8,989,969. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions such as the following: 1) to pay for expenditures of the Moderate Rehabilitation Program (\$1,717,002); 2) to pay for capital projects and other purposes (\$4,474,869); and 3) to pay debt services (\$2,798,098). There are committed fund balances amounting to \$323,377 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions to pay for capital projects. There are assigned fund balances amounting to \$167,407 that represent resources for specific purposes, but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) to pay for capital projects.

As of June 30, 2015, the General Fund, which is the main operating fund of the Municipality, reflected an unassigned fund deficit of \$4,961,115. As previously mentioned, management is in the process of reviewing this negative financial situation through the design and enforcement of those measures that will contribute to reverse the declining trend of the Municipality's profitability. Some of these measures already implemented have produced positive results as reflected from the comparison of certain current expenditure items for the years 2013-2014 and 2014-2015. It should be furtherly noted that as of June 30, 2015, the General Fund's net change in fund balance amounted to \$502,689 which represents an improvement of \$1,177,467 when compared with the corresponding figure of previous year 2014, as restated.

### GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2014-2015, the Municipal Legislature approved revisions to the operational budget that was prepared in accordance to the analysis of previous year's results. Despite of the balance budget, the expected amounts of revenues were not collected, as reflected in the exhibit Budgetary Comparison Schedule - General Fund attached here to. The **Municipality of Trujillo Alto's** current year operation had a excess of revenues and other financing sources over expenditures and other financing uses of \$749,220.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The Municipality's investment in capital assets as of June 30, 2015, amounted to \$182,368,738, which upon deduction of accumulated depreciation in the amount of \$52,524,179, produced a net book value attributable to capital assets in the amount of \$129,844,559. Said investment includes land, construction work in progress, buildings, improvements, equipment, infrastructure, furnishing, computers and vehicles. Infrastructure assets are composed of items such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. At present, sources of funds to finance construction projects have been substantially reduced for all agencies, departments, public corporations and municipalities of the Commonwealth of Puerto Rico. The downgrading of the Puerto Rican bonds has virtually frozen the American Bond Market for long-term and interim financing, while the private banking sector has assumed a very conservative policy with respect to local borrowing. This fiscal contraction has produced very serious liquidity problems to the Governmental Development Bank and the Commonwealth's General Fund. This scenario explains why both the Executive and the Legislative levels have been involved in a sustained, deep and intensive dialog with the US Congress towards looking for a mechanism that would make feasible the restructuring of the \$71 billion of outstanding debt corresponding to the Commonwealth Government as a whole.

The total decrease in the Municipality's investment in capital assets for the current fiscal year represented approximately one percent (1%) of net book value. This decrease was due to depreciation expenses accumulated during the year. Depreciation charges for the year totaled \$4,905,218.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality had \$2,109,201 of unexpended proceeds from bond and notes issuances and other restricted assignments that are mainly committed to future construction activities in the Other Governmental Funds and to waste disposal obligations in the General Fund. As previously mentioned, the reduction in said activities might continue if no effective action is taken to provide additional monies to finance the current improvement program.

### **Debt Administration**

The Commonwealth Legislature of Puerto Rico has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged. The applicable law also requires that in order for a municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity" as defined in Act No. 64 of July 3, 1996, as amended, also known as Financing Municipal Act. Such Act requires that a municipality must have sufficient "payment capacity" to incur in additional general obligation debt if its deposits in the Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, is sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt.

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

Under prevailing applicable law, the Municipality is required to levy a Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal 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. In the particular case of the Autonomous Municipality of Trujillo Alto, it has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

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

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

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

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases not generally exceeding ten percent. State grant revenues may vary if new grants are available, but the revenue can be also predictable. Due to economic and budgetary constriction being faced by the Federal Government, grants available for present and future years could be reduced for states and territories. Although specific reductions are unpredictable, those factors are being considered by the Municipality in the confection of 2015-2016 and subsequent fiscal years budgets.

A similar or even worse situation is applicable to contributions from the Commonwealth Government to Municipalities. This subject has been explained and broadly discussed in previous paragraphs.

## COMMENTS ON THE AUDITOR'S FINANCIAL STATEMENTS OPINION FISCAL YEAR 2015

For the first time in decades, the financial statements as of June 30, 2015 corresponding to the Governmental Activities of the **Autonomous Municipality of Trujillo Alto** are presented by its independent auditors under a qualified opinion. Such qualification responds to the fact that the Municipality's plan administrator has not provided actuarial and financial information necessary for the proper reporting of the net pension liability as of June 30, 2015. As a result, it is argued that 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 GASB Statement No. 68. 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 of cost-sharing pension employers. It is the opinion of the external auditors that this information is required by accounting principles generally accepted in the US of America.

Management recognizes the independent auditors' concerns regarding compliance with GASB 68 requirements. Although the aforementioned financial statements qualification will apply to all audited financial statements to be published for all the Commonwealth Government and its instrumentalities because its members are not complying with GASB 68 requirement, it should be clearly understood that until the pertinent actuarial information is published and submitted to the participants of the Government of Puerto Rico's Pension Fund, this Municipality nor any other agency or local government will be able to produce 100% clear opinions of their audited financial statements. At present, this irregular situation is beyond the Municipality's management control.

## FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 1869, Trujillo Alto, PR 00977, or call (787) 761-0172.

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,924,133
Cash with fiscal agent	8,495,736
Accounts receivable:	
Municipal license tax	42,000
Municipal sales and use tax	214,948
Interest	515
Others	91,813
Due from:	
Commonwealth Government	1,263,260
Federal Government	20,779
Capital assets	
Land, improvements, and construction in progress	53,937,001
Other capital assets, net of depreciation	75,907,558
Total capital assets	<u>129,844,559</u>
<b>Total assets</b>	<u>145,897,743</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	5,744,046
Due to:	
Commonwealth Government	275,455
Unearned revenues:	
Municipal license tax	2,485,607
Interest payable	1,532,757
Noncurrent liabilities:	
Due within one year	3,677,544
Due in more than one year	<u>55,409,179</u>
<b>Total liabilities</b>	<u>69,124,588</u>
<b>Net position</b>	
Net investment in capital assets	75,008,559
Restricted for:	
Capital projects	3,813,268
Debt service	2,798,098
Other purposes	2,849,752
Unrestricted (deficit)	<u>(7,696,522)</u>
<b>Total net position</b>	<u>\$ 76,773,155</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TRUJILLO ALTO**

**Statement of Activities  
For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 18,071,461	\$ 196,146	\$ -	\$ -	\$ (17,875,315)
Public safety	2,381,760	204,223	-	-	(2,177,537)
Public works	3,916,144	41,685	56,347	50,819	(3,767,293)
Health and welfare	8,997,738	3,620	7,181,535	-	(1,812,583)
Culture and recreation	1,575,654	26,505	419,826	207,072	(922,251)
Community development	1,557,793	-	30,932	-	(1,526,861)
Urban development	36,301	-	-	-	(36,301)
Education	609,911	-	-	-	(609,911)
Interest on long-term debt	3,033,738	-	-	-	(3,033,738)
<b>Total governmental activities</b>	<b>\$ 40,180,500</b>	<b>\$ 472,179</b>	<b>\$ 7,688,640</b>	<b>\$ 257,891</b>	<b>(31,761,790)</b>
General revenues:					
Property taxes					14,987,094
Municipal sales and use tax					3,589,653
Municipal license tax					4,047,047
Other local taxes					333,942
Grants and contributions not restricted to specific programs					7,870,427
Interest					218,832
Miscellaneous					257,236
Total general revenues					31,304,231
Change in net position					(457,559)
Net position - beginning, as restated					77,230,714
Net position - ending					\$ 76,773,155

	Major funds				Total Governmental Funds
	General Fund	Special Revenue Fund Moderate Rehabilitation	Debt Service Fund	Other Governmental Funds	
<b>Assets</b>					
Cash and cash equivalents	\$ 9,770	\$ 1,786,415	\$ -	\$ 4,127,948	\$ 5,924,133
Cash with fiscal agent	68,153	-	6,157,846	2,269,737	8,495,736
Accounts receivable:					
Municipal license tax	42,000	-	-	-	42,000
Municipal sales and use tax	214,948	-	-	-	214,948
Interest	515	-	-	-	515
Others	91,813	-	-	-	91,813
Due from:					
Commonwealth Government	513,146	-	478,242	271,872	1,263,260
Federal Government	-	-	-	20,779	20,779
Other funds	803,121	-	-	370,305	1,173,426
Advances to other funds	147,772	-	-	-	147,772
<b>Total assets</b>	<b>\$ 1,891,238</b>	<b>\$ 1,786,415</b>	<b>\$ 6,636,088</b>	<b>\$ 7,060,641</b>	<b>\$ 17,374,382</b>
<b>Liabilities</b>					
Accounts payable and accrued liabilities	\$ 2,866,023	\$ 47,500	\$ -	\$ 920,258	\$ 3,833,781
Matured bonds due and payable	115,000	-	2,592,000	-	2,707,000
Matured interest due and payable	286,767	-	1,245,990	-	1,532,757
Due to:					
Commonwealth Government	275,455	-	-	-	275,455
Other funds	370,305	21,913	-	781,208	1,173,426
Advances from other funds	-	-	-	147,772	147,772
Unearned revenues:					
Municipal license tax	2,485,607	-	-	-	2,485,607
<b>Total liabilities</b>	<b>6,399,157</b>	<b>69,413</b>	<b>3,837,990</b>	<b>1,849,238</b>	<b>12,155,798</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues-Commonwealth Government	305,424	-	-	245,038	550,462
Unavailable revenues-Federal Government	-	-	-	712	712
<b>Total deferred inflows of resources</b>	<b>305,424</b>	<b>-</b>	<b>-</b>	<b>245,750</b>	<b>551,174</b>
<b>Fund Balances (Deficit)</b>					
Nonspendable	147,772	-	-	-	147,772
Restricted	-	1,717,002	2,798,098	4,474,869	8,989,969
Committed	-	-	-	323,377	323,377
Assigned	-	-	-	167,407	167,407
Unassigned	(4,961,115)	-	-	-	(4,961,115)
<b>Total fund balances</b>	<b>(4,813,343)</b>	<b>1,717,002</b>	<b>2,798,098</b>	<b>4,965,653</b>	<b>4,667,410</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,891,238</b>	<b>\$ 1,786,415</b>	<b>\$ 6,636,088</b>	<b>\$ 7,060,641</b>	<b>\$ 17,374,382</b>

	Major funds				Total Governmental Funds
	General	Special	Debt	Other	
	Fund	Revenue Fund Moderate Rehabilitation	Service Fund	Governmental Funds	
<b>Revenues</b>					
Property taxes	\$ 9,230,355	\$ -	\$ 5,756,739	\$ -	\$ 14,987,094
Municipal license taxes	4,047,047	-	-	-	4,047,047
Municipal sales and use tax	3,112,589	-	477,064	-	3,589,653
Licenses, permits and other local taxes	343,580	-	-	-	343,580
Charges for services	17,416	-	-	138	17,554
Intergovernmental	7,583,373	-	-	1,246,967	8,830,340
Rent of property	436,126	-	-	11,025	447,151
Interest	218,289	-	-	543	218,832
Federal grants	-	1,902,217	-	4,782,255	6,684,472
Miscellaneous	233,351	5,159	-	31,654	270,164
<b>Total revenues</b>	<b>25,222,126</b>	<b>1,907,376</b>	<b>6,233,803</b>	<b>6,072,582</b>	<b>39,435,887</b>
<b>Expenditures</b>					
Current:					
General government	17,000,746	-	-	42,736	17,043,482
Public safety	2,151,292	-	-	8,674	2,159,966
Public works	2,405,384	-	-	2,735,925	5,141,309
Health and welfare	3,210,495	1,124,275	-	4,409,592	8,744,362
Culture and recreation	510,871	-	-	776,620	1,287,491
Community development	367,573	-	-	901,895	1,269,468
Urban development	-	-	-	36,301	36,301
Education	379,867	-	-	221,644	601,511
Debt service:					
Principal	220,000	-	2,592,000	210,000	3,022,000
Interest	386,375	-	2,490,953	107,496	2,984,824
<b>Total expenditures</b>	<b>26,632,603</b>	<b>1,124,275</b>	<b>5,082,953</b>	<b>9,450,883</b>	<b>42,290,714</b>
Excess (deficiency) of revenues over (under) expenditures	(1,410,477)	783,101	1,150,850	(3,378,301)	(2,854,827)
<b>Other financing sources (uses)</b>					
Transfers in	1,913,234	2,196	-	68	1,915,498
Transfers out	(68)	-	(1,835,782)	(79,648)	(1,915,498)
<b>Total other financing sources (uses)</b>	<b>1,913,166</b>	<b>2,196</b>	<b>(1,835,782)</b>	<b>(79,580)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>502,689</b>	<b>785,297</b>	<b>(684,932)</b>	<b>(3,457,881)</b>	<b>(2,854,827)</b>
<b>Fund balance, beginning as restated</b>	<b>(5,316,032)</b>	<b>931,705</b>	<b>3,483,030</b>	<b>8,423,534</b>	<b>7,522,237</b>
<b>Fund balance, ending</b>	<b>\$ (4,813,343)</b>	<b>\$ 1,717,002</b>	<b>\$ 2,798,098</b>	<b>\$ 4,965,653</b>	<b>\$ 4,667,410</b>

**Total Fund Balances - Governmental Funds** \$ 4,667,410

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

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

Non-depreciable capital assets	\$ 53,937,001	
Depreciable capital assets	128,431,737	
Accumulated depreciation	<u>(52,524,179)</u>	
Total capital assets		129,844,559

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	205,674	
Christmas bonus reimbursement	99,750	
Department of Labor-Law No. 52	69,666	
PR Department of Treasury-Fines (Public Order Code)	21,429	
PR Department of Treasury-Commonwealth Legislature	153,943	
Federal grants	<u>712</u>	
Total deferred inflows of resources		551,174

Principal payment on Bonds and Notes payable due within one year was accumulated on the Governmental Fund Financial Statements, and for Government-Wide Financial Statement was included as part of Non-current liabilities:

2,707,000

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

(1,910,265)

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	(52,297,000)	
Note payable to CRIM-Law No. 146	(818,676)	
Property tax advances debt	(30,254)	
Section 108 Loan Guarantee notes payable	(1,900,000)	
Compensated absences	(3,708,660)	
Claims and judgments	(80,000)	
Christmas bonus	<u>(252,133)</u>	
Total long-term liabilities		<u>(59,086,723)</u>

**Total Net Position of Governmental Activities** \$ 76,773,155

**Net Change in Fund Balances - Total Governmental Funds** \$ (2,854,827)

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

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

Expenditures for capital assets	\$ 4,724,556	
Less: current-year depreciation	(4,905,218)	(180,662)

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

Christmas bonus reimbursement (current year)	99,750	
Commonwealth government	450,712	
Federal grants	712	551,174

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

Christmas bonus reimbursement (prior year)	(230,005)	
PR Transit Safety Commission-Incentive grants	(34,115)	(264,120)

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

(933,078)

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

(452,751)

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

Matured bonds and notes principal payments (net change)		305,000
---	--	---------

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	2,507,000	
Other long-term liabilities	1,013,779	3,520,779

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	(252,133)	
Accrued compensated absences	(68,027)	
Accrued interest (net change)	171,086	(149,074)

**Change in Net Position of Governmental Activities** \$ (457,559)

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Trujillo Alto (the Municipality)** was founded in the year 1801. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for a four-year term.

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

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP). 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 **Autonomous Municipality of Trujillo Alto** (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

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

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

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

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

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

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

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

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

### 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:

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

### Management's Discussion and Analysis

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

### Basic financial statements

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

### Government-wide Financial Statements (GWFS)

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

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

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

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

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

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

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

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

The Municipality reports the following major governmental funds:

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

**Special Revenue Fund Moderate Rehabilitation** – This fund is used to account for and report revenue sources from US Department of Housing and Urban Development that are restricted for the activities performed by the Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation. This activity consists of providing safe housing to families under the poverty line or eligible for public assistance.

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

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

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

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

Revenues susceptible to accrual include property taxes, recognized as revenue in the year for which they are levied; municipal license taxes and sales and use taxes, recognized when the underlying exchange has occurred and time requirements are met; and interest. In applying the susceptible to accrual concept to intergovernmental revenues, revenues are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met and revenue becomes available.

There are, however, essentially two types of these revenues. In the first case, on expenditure-driven grants, monies must be expended on the specific project or purpose (eligibility requirement), before any amounts are paid to the Municipality. Revenue is, therefore, recognized as expenditures are incurred to the extent available. In the other cases, monies are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. In these cases, revenues are recognized at the time of receipt or earlier, if the susceptible-to-accrual criterion is met. Licenses and permits, charges for services, rent, fines and miscellaneous revenues are generally recorded as revenues when received or are recognized earlier if the susceptible-to-accrual criterion is met.

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

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, 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.

### **Notes to financial statements**

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

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

### Required Supplementary Information (RSI)

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

### C. Financial reporting presentation

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

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

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

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

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

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

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

### D. Deposits and investments

The Municipality's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Nonnegotiable certificates of deposits with original maturity of more than three months are considered time deposits as required by current standards.

The Municipality follows the practice of pooling cash of all funds except for certain Commonwealth's grants, restricted funds generally held by outside custodians and federal grants. Available pooled cash balance beyond immediate needs is invested in certificates of deposits. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

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

### E. Restricted assets

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

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

### F. Receivables and due from governmental entities

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

### G. Interfund receivables and payables

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

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

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

**H. Inventories**

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

**I. Capital assets**

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

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

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

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

**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.

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

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

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

### K. Long-term obligations

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

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

### L. Compensated absences

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

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

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

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

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

### M. Claims and judgments

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

### N. Net position

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

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

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

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

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

### O. Net position flow assumption

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

### P. Fund balances

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

**Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

## 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.

### 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

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

reported for the pension plans' trust by the plan's administrator as of the measurement date. In addition, if the Municipality's annual contributions are less than the statutorily required amounts, a liability is recorded for any unpaid balances.

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

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

### S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

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

### T. Risk financing

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

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

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.

### V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 72 "Fair Value Measurement and Application."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
2. **GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).
3. **GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).

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

4. **GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).
5. **GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).
6. **GASB Statement No. 77 "Tax Abatement Disclosures."** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

### W. Subsequent events

Subsequent events have been evaluated through January 29, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

## 2. CASH AND CASH EQUIVALENTS

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

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

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

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

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the*

## 2. CASH AND CASH EQUIVALENTS (CONTINUED)

*Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks are fully collateralized under the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

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

**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.

**Deposits** - At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$5,924,133 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amount to \$8,495,736 as of June 30, 2015.

## 3. RECEIVABLES

### A. MUNICIPAL LICENSE TAXES

Municipal License Taxes are assessed annually by the Municipality to all organizations or entities subject to the tax doing business in the Municipality's location except for entities totally or partially exempt pursuant to certain Commonwealth's statutes. This tax is based generally on volume of business or gross sales as shown in a tax return that should be submitted on or before April 15.

During the fiscal year ended June 30, 2015, the tax rates were as follows:

- Financial business – 1.50% of gross revenues
- Other organizations - .50% of gross revenues

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$2,485,607 is recorded as unearned revenues. As of June 30, 2015 Municipal License Tax receivable amounted to \$ 42,000.

### 3. RECEIVABLES (CONTINUED)

#### B. Municipal sales and use taxes

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

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

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

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

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

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.

### 3. RECEIVABLES (CONTINUED)

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 **Autonomous Municipality of Trujillo Alto** signed the agreement to be covered.

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

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

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

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

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.

### 3. RECEIVABLES (CONTINUED)

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

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

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the **Autonomous Municipality of Trujillo Alto**, the implementation date was December,1 2014. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to \$289,859, \$477,063 and \$2,822,729 respectively. The Municipality accrued \$214,948 at June 30, 2015.

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

**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>Major fund – General fund:</b>		
PR Department of Treasury-Christmas bonus reimbursement	\$ 99,750	\$ -
PR Department of Treasury-Fines	4,693	
Office of Management and Budget-Retirement system subsidy	203,029	
Municipal Revenue Collection Center (CRIM) – property taxes final liquidation	205,674	
<b>Major fund – Debt service fund:</b>		
Municipal Revenue Collection Center (CRIM) – property taxes	478,242	
<b>Other Governmental Funds:</b>		
PR Department of Labor-Law 52	71,167	
PR Department of Treasury-Fines (Public Order Code)	21,429	
PR Department of Treasury-State Legislative Resolutions	161,663	
PR Department of Transportation-Cooperative Agreement	17,613	
US Department of Housing and Urban Development-Community Development Block Grant		20,779
	<u>\$ 1,263,260</u>	<u>\$ 20,779</u>

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

<u>Governmental Entity</u>	<u>Amount</u>
Puerto Rico Aqueduct and Sewer Authority	\$ 41,402
Puerto Rico Telephone Company	30,543
Retirement System Administration	203,029
General Services Administration	481
<b>Total</b>	<u>\$ 275,455</u>

**5. INTERFUND TRANSACTIONS**

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

**a. Due from/to other fund and Advances from/to other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund- Moderate Rehabilitation	Reimbursable Expenditures	\$ 21,913
General Fund	Other Governmental Funds	Reimbursable Expenditures	928,980
Other Governmental Funds	General Fund	Pending transfer of funds	<u>370,305</u>
<b>Total</b>			<u>\$ 1,321,198</u>

**5. INTERFUND TRANSACTIONS (Continued)**

b. Transfer in/out to other fund

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Transfer of funds for operational activities	\$ 68
Other Governmental Funds	General Fund	Transfer of funds for operational activities	77,452
Other Governmental Funds	Special Revenue Fund-Moderate Rehabilitation	Transfer of incorrect deposit	2,196
Debt Service Fund	General Fund	Transfer of excess funds available in sinking fund for use in operating activities	1,835,782
<b>Total</b>			<b>\$ 1,915,498</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund-Moderate Rehabilitation</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 2,477,382	\$ 47,500	\$ 920,258	\$ 3,445,140
Accrued liabilities	388,641	-	-	388,641
<b>Total</b>	<b>\$ 2,866,023</b>	<b>\$ 47,500</b>	<b>\$ 920,258</b>	<b>\$ 3,833,781</b>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

**7. UNEARNED REVENUES**

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

	<u>Amount</u>
<b><u>Major fund – General fund:</u></b>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	\$ 2,485,607
	<u>\$ 2,485,607</u>

**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>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund - General fund:</u></b>		
P.R. Department of Treasury – Christmas bonus reimbursement	\$ 99,750	
Municipal Revenue Collection Center (CRIM) – property taxes final liquidation	205,674	
PR Department of Labor-Law 52	69,666	
PR Department of Treasury-Fines (Public Order Code)	21,429	
PR Department of Treasury-State Legislative Resolutions	153,943	
<b><u>Other governmental funds:</u></b>		
US Department of Housing and Urban Development-Home Program		691
US Homeland Security Administration-Public Assistance Grants		21
	<u>\$ 550,462</u>	<u>\$ 712</u>

**THIS SPACE HAS BEEN INTENTIONALLY LEFT BLANK**

**9. FUND BALANCE (DEFICIT)**

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

	<u>General Fund</u>	<u>Special Revenue Fund Moderate Rehabilitation</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable</b>					
Interfund loan receivable	\$ 147,772	\$ -	\$ -	\$ -	\$ 147,772
<b>Restricted</b>					
General government				39,639	39,639
Public safety					
Public works				3,223,127	3,223,127
Health and welfare		1,717,002		634,650	2,351,652
Culture and recreation				368,487	368,487
Economic development				4,733	4,733
Community development					
Urban development				58,840	58,840
Education				145,393	145,393
Debt service			2,798,098		2,798,098
<b>Committed</b>					
General government				2,571	2,571
Public works				320,806	320,806
<b>Assigned</b>					
General government				60,317	60,317
Public works				35,514	35,514
Health and welfare				4,006	4,006
Culture and recreation				67,570	67,570
<b>Unassigned</b>	<u>(4,961,115)</u>				<u>(4,961,115)</u>
<b>Total fund balances</b>	<u><u>\$ (4,813,343)</u></u>	<u><u>\$ 1,717,002</u></u>	<u><u>\$ 2,798,098</u></u>	<u><u>\$ 4,965,653</u></u>	<u><u>\$ 4,667,410</u></u>

## 10. CAPITAL ASSETS

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

Governmental Activities:	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 45,026,115	\$ 111,263	\$ (586,526)	\$ 44,550,852
Construction in progress	8,600,403	3,512,895	(2,727,149)	9,386,149
Total capital assets not being depreciated	<u>53,626,518</u>	<u>3,624,158</u>	<u>(3,313,675)</u>	<u>53,937,001</u>
Capital assets, being depreciated:				
Buildings	36,180,008	1,135,093	(929,795)	36,385,306
Buildings improvements	34,504,621	2,146,288		36,650,909
Infrastructure	19,031,063	57,887		19,088,950
Infrastructure improvements	21,504,083	332,141		21,836,224
Equipment	3,076,553	185,171	(33,037)	3,228,687
Furnishings	1,464,711	4,452	(4,444)	1,464,719
Computers	849,922	64,882	(70,602)	844,202
Works of art	212,435	22,398		234,833
Vehicles	8,246,112	465,761	(13,966)	8,697,907
Total capital assets being depreciated	<u>125,069,508</u>	<u>4,414,073</u>	<u>(1,051,844)</u>	<u>128,431,737</u>
Less accumulated depreciation for:				
Buildings	(11,659,349)	(918,864)	9,685	(12,568,528)
Buildings improvements	(4,180,338)	(950,743)		(5,131,081)
Infrastructure	(13,221,588)	(1,433,806)		(14,655,394)
Infrastructure improvements	(7,368,935)	(461,386)		(7,830,321)
Equipment	(2,421,232)	(315,762)	30,743	(2,706,251)
Furnishings	(1,296,949)	(53,123)	3,941	(1,346,131)
Computers	(685,209)	(85,893)	70,431	(700,671)
Vehicles	(6,904,127)	(685,641)	3,966	(7,585,802)
Total accumulated depreciation	<u>(47,737,727)</u>	<u>(4,905,218)</u>	<u>118,766</u>	<u>(52,524,179)</u>
Total capital assets being depreciated, net	<u>77,331,781</u>	<u>(491,145)</u>	<u>(933,078)</u>	<u>75,907,558</u>
Governmental activities capital assets, net	<u>\$ 130,958,299</u>	<u>\$ 3,133,013</u>	<u>\$ (4,246,753)</u>	<u>\$ 129,844,559</u>

## 10. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	\$ 2,226,440
Public safety	268,256
Public works	1,178,569
Culture and recreation	893,502
Health and welfare	135,252
Community development	189,278
Education	13,921
<b>Total depreciation expense-governmental activities</b>	<b>\$ 4,905,218</b>

## 11. LONG-TERM LIABILITIES

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

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	\$ 48,870,000	\$ -	\$ (1,870,000)	\$ 47,000,000	\$ 2,010,000
Notes payable	5,934,000	-	(637,000)	5,297,000	697,000
Section 108-Note payable	2,110,000	-	(210,000)	1,900,000	210,000
Note Payable to CRIM- Law No. 146	866,833	-	(48,157)	818,676	48,157
Property tax advances debt	30,254	-	-	30,254	30,254
Claims and judgments	179,676	-	(99,676)	80,000	80,000
Compensated absences	3,801,378	68,027	(160,745)	3,708,660	350,000
Christmas bonus	495,201	252,133	(495,201)	252,133	252,133
Total	<u>\$ 62,287,342</u>	<u>\$ 320,160</u>	<u>\$ (3,520,779)</u>	<u>\$ 59,086,723</u>	<u>\$ 3,677,544</u>

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

Description	Balance at June 30, 2015
1998 General bond obligation for construction and improvement of infrastructure assets with an original amount \$11,230,000 due in installments of \$35,000 to \$175,000 through July 1, 2039, with interest of 4.87% to 6.56%	\$ 6,050,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2002 General bond obligation for construction of infrastructure assets with an original amount \$3,985,000 due in installments of \$110,000 to \$345,000 through July 1, 2026, with interest ranging from 2.70% to 5.60%	2,815,000
2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$255,000 due in installments of \$5,000 to \$20,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	180,000
2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$355,000 due in installments of \$10,000 to \$25,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	255,000
2004 General bond obligation for construction and improvement of infrastructure assets with an original amount \$5,430,000 due in installments of \$155,000 to \$420,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	3,830,000
2005 General bond obligation for construction and improvement of infrastructure assets with an original amount \$3,820,000 due in installments of \$100,000 to \$270,000 through July 1, 2030, with interest ranging from 4.17% to 5.31%	2,980,000
2008 General bond obligation for construction and improvement of infrastructure assets with an original amount \$2,565,000 due in installments of \$45,000 to \$215,000 through July 1, 2033, with interest ranging from 1.28% to 7.5%	2,235,000
2009 General obligation bond for construction and improvement of infrastructure assets with an original amount \$1,185,000 due in installments of \$20,000 to \$100,000 through July 1, 2034, with interest ranging from 1.28% to 7.5%	1,060,000
2010 Revenue bond for infrastructure's improvement and the operational expenditures of the Medical Treatment and Diagnostic Center with an original amount of \$5,090,000 due in installments of \$85,000 to \$420,000 through July 1, 2033, with interest of 7%	4,705,000
2010 General obligation bond for construction and improvements of infrastructure with an original amount of \$5,930,000 due in installments of \$145,000 to \$545,000 through July 1, 2030, with interest ranging from 6% to 7.5%	5,135,000
2012 General obligation bond for construction and improvements of infrastructure with an original amount of \$805,000 due in installments of \$10,000 to \$65,000 through July 1, 2036, with interest ranging from 6% to 7%	755,000
2012 General obligation bond for construction and improvements of infrastructure with an original amount of \$7,650,000 due in installments of \$185,000 to \$675,000 through July 1, 2031, with interest ranging from 6% to 7%	6,820,000
2013 General bond obligation for operational expenditures with an original amount \$1,400,000 due in installments of \$20,000 to \$120,000 through July 1, 2038, with interest from 6.0% to 7.50%	1,360,000
2013 General bond obligation for construction and improvement of infrastructure assets with an original amount \$7,300,000 due in installments of \$185,000 to \$685,000 through July 1, 2031, with interest from 6.0% to 7.50%	6,700,000
2014 General bond obligation for operational expenditures with an original amount \$2,155,000 due in installments of \$420,000 to \$975,000 through July 1, 2022, with interest ranging from 6.00% to 7.00%	2,120,000
<b>Total general obligation bonds</b>	<b>\$ 47,000,000</b>

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

These bonds are payable from the ad valorem property tax of 3.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes.

These bonds, except the 2010 Series \$ 5,090,000 bond and the 2011 Series \$805,000, are payable from the special ad valorem property tax of 3.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 2010 Series \$5,090,000 bond is payable with General Fund resources. The Series 2011 amounting \$805,000 is payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 2,010,000	\$ 2,596,264
2017	2,165,000	2,886,089
2018	2,315,000	2,760,004
2019	2,480,000	2,622,171
2020	2,670,000	2,456,595
2021-2025	14,395,000	9,502,519
2026-2030	14,275,000	4,812,033
2031-2035	5,665,000	1,095,464
2036-2040	<u>1,025,000</u>	<u>132,988</u>
<b>Total</b>	<b><u>\$ 47,000,000</u></b>	<b><u>\$ 28,864,127</u></b>

**C. Notes payable-** The proceeds of the issuance of notes payables were used principally to cover the expenditures of a special event, such as capital projects and real property acquisitions. The notes are payable as follows:

<u>Type of notes</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Range of Interest rates</u>	<u>Balance at June 30, 2015</u>
2012 Series General Obligation Note	7/1/2018	\$ 441,000	6% to 7.5%	\$ 217,000
2010 Series General Obligation Note	7/1/2020	305,000	4.75% to 7.50%	105,000
2010 Series General Obligation Note	7/1/2020	1,985,000	6.00% to 7.50%	675,000
2008 Series General Obligation Note	7/1/1932	3,705,000	0% to 7.50%	3,330,000
2013 Series General Obligation Note	7/1/2019	590,000	6.00% to 7.50%	375,000
2014 Series General Obligation Note	7/1/2021	670,000	6.00% to 7.50%	<u>595,000</u>
<b>Total notes payable</b>				<b><u>\$ 5,297,000</u></b>

These notes are payable from the ad valorem property tax of 3.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2008 and the Series 2012, amounting 3,705,000, and \$441,000, respectively, are payable with the revenues generated from the collection of the .2% of the Municipal Sales and Use Taxes Redemption Fund.

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 697,000	\$ 128,469
2017	762,000	314,100
2018	383,000	271,625
2019	325,000	245,562
2020	235,000	225,088
2021-2025	895,000	908,525
2026-2030	1,130,000	550,125
2031-2035	<u>870,000</u>	<u>100,125</u>
<b>Total</b>	<b><u>\$ 5,297,000</u></b>	<b><u>\$ 2,743,619</u></b>

- D. Section 108 Loan Guarantee notes payable-** The Municipality entered into a financing agreement with the US Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The agreement was issued on August 2003, for \$4,000,000. The proceeds of the loan will be used for the following activities: (1) Municipal Public Safety Complex; (2) Improvement to "Parque Familiar"; (3) "Museo & Casa de la Cultura"; (4) PRIDCO Building-State Government Services Center; and (5) "Extensión Parque Kennedy". This note is payable in annual installments of \$210,000 to \$215,000 through August 1, 2023. The payment of principal and interest of the note are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program. Debt Service requirement in future years is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 210,000	\$ 97,807
2017	210,000	87,034
2018	210,000	76,030
2019	210,000	64,827
2020	210,000	53,444
2021-2025	<u>850,000</u>	<u>106,547</u>
<b>Total</b>	<b><u>\$ 1,900,000</u></b>	<b><u>\$ 485,689</u></b>

- E. Property Taxes Debts (Law No. 146, and property tax advances)-** These amounts represent the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015 as described in Note 13.
- F. Compensated absences-** The government-wide statement of net position includes approximately \$1,732,984 of accrued sick leave benefits, and approximately \$1,975,676 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- G. Christmas bonus -** represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$252,133.
- H. Claims and judgments -** 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. The outstanding amount is \$80,000.

## 12. PROPERTY TAXES

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

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

The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This preliminary liquidation has to be completed not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its independent auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. The CRIM issued the final liquidation noting that collections exceeded advances by \$205,674.

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

In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities through a 30-year long-term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. During the first five years of the note, commenced in July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. As of June 30 2015, the related unpaid balances of this note included in the statement of net position amounted to \$818,676.

## 12. PROPERTY TAXES (CONTINUED)

The annual tax rate, as amended in April 2010, is 10.78% for real property and 8.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 4% and 6%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 3.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

A discount of 0.20% is granted by law to the taxpayers but reimbursed to the Municipality by the PR Department of Treasury, making the net percentages paid by the taxpayers 10.58% for real property and 8.58% for personal property.

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

## 13. PENSION PLAN

### General Information about the Pension Plan

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

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

### 13. PENSION PLAN (CONTINUED)

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 x .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 \$979,118.

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 \$265,963, of which \$46,379 (17%) 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).

### 13. PENSION PLAN (CONTINUED)

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

### 14. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 14, 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 \$450,132, of which \$176,175 (39%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

### 15. RISK MANAGEMENT

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

### 16. COMMITMENTS AND CONTINGENCIES

#### A. Federal Grants:

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

**16. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**B. Claims and lawsuits:**

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately \$80,000 for awarded or anticipated unfavorable judgments in the Government-Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

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

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

	Fund Financial Statements				Government-wide Financial Statement
	General Fund	Special Revenue Fund Moderate Rehabilitation	Debt Service Fund	Other Governmental Funds	Net Position
Total fund balances/ net position, at beginning of year, as previously reported	\$ (5,970,727)	\$ 931,705	\$ 3,483,030	\$ 9,067,920	\$ 77,166,399
<b>Correction of errors:</b>					
Operations of other governmental funds financed by the general fund used to offset interfund transaction	1,025,000			(1,025,000)	
Overstatement of accounts receivable	(370,305)			370,305	
Overstatement of accounts payable				7,998	
Understatement of intergovernmental revenues				2,311	
Overstatement of intergovernmental revenues					(35,361)
Overstatement of claims and judgements					99,676
Fund balance/ net position, beginning as restated	<u>\$ (5,316,032)</u>	<u>\$ 931,705</u>	<u>\$ 3,483,030</u>	<u>\$ 8,423,534</u>	<u>\$ 77,230,714</u>

**18. SUBSEQUENT EVENTS**

**Puerto Rico Fiscal and Economic Growth Plan**

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

## 18. SUBSEQUENT EVENTS (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). Such guidelines will need further revision by the Energetic Commission of Puerto Rico to conform its content to the changes to be incorporated in the PREPA's Revitalization Act which was under consideration by the Legislative Assembly as of December 31, 2015.

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

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

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive Negative
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 8,891,661	\$ 8,891,661	\$ 9,230,355	\$ 338,694
Municipal license tax	3,900,000	3,900,000	4,005,047	105,047
Municipal sales and use tax	3,227,000	3,227,000	3,018,565	(208,435)
Licenses, permits and other local taxes	1,659,575	1,659,575	352,707	(1,306,868)
Intergovernmental	5,691,007	5,691,007	5,691,716	709
Rent of property	2,525,000	2,525,000	382,302	(2,142,698)
Interest	300,000	300,000	240,194	(59,806)
Miscellaneous	175,000	175,000	150,767	(24,233)
<b>Total revenues</b>	<b>26,369,243</b>	<b>26,369,243</b>	<b>23,071,653</b>	<b>(3,297,590)</b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
General government	15,496,642	16,686,790	14,299,385	2,387,405
Public safety	2,454,563	2,220,849	2,131,743	89,106
Public works	2,959,931	2,705,639	2,076,866	628,773
Health and welfare	3,894,262	3,468,544	2,602,020	866,524
Culture and recreation	704,974	535,245	485,259	49,986
Community development	423,720	367,619	347,748	19,871
Education	435,151	384,557	379,412	5,145
<b>Total expenditures, encumbrances and other financing uses</b>	<b>26,369,243</b>	<b>26,369,243</b>	<b>22,322,433</b>	<b>4,046,810</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 749,220</b>	<b>\$ 749,220</b>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 23,071,653
Differences-budget to GAAP:				
Non-budgeted transfer in				1,913,234
GAAP adjustments to revenues				2,150,473
<b>Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 27,135,360</b>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 22,322,433
Differences-budget to GAAP:				
Non-budgeted expenditures				2,279,826
Non-budgeted transfer out				68
Prior year encumbrances recorded as current year expenditures for GAAP basis				2,030,344
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 26,632,671</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 original budget. There were no supplemental appropriations for the year ended June 30, 2015.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
<b>BALANCE SHEET</b>		
<b>Assets</b>	<b>Current Assets Cash</b>	
111	Cash - Unrestricted	\$ 368,202
113	Cash - Other Restricted	-
100	<b>Total Cash</b>	<u>368,202</u>
121	Account Receivable-PHA	370,305
128	Fraud Recovery	63,287
150	<b>Total Current Assets</b>	<u>433,592</u>
	<b>Non-Current Assets</b>	
	<b>Fixed Assets:</b>	
164	Furniture, Equipment & Machinery - Administration	272,314
166	Accumulated Depreciation	(175,114)
160	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>97,200</u>
180	<b>Total Non-Current Assets</b>	97,200
190	<b>Total Assets</b>	<u>898,994</u>
290	<b>Total Assets and Deferred Outflow of Resources</b>	<u>898,994</u>
<b>Liabilities and Equity</b>	<b>Liabilities</b>	
300	<b>Total Liabilities</b>	
312	Accounts Payable <= 90 Days	9,015
321	Accrued Wge\Payroll Taxes	147,618
333	Accounts Payable Other Government	3,547
347	Inter Program-Due To	144,584
310	<b>Total Current Liabilities</b>	<u>304,764</u>
190	<b>Total Liabilities</b>	<u>304,764</u>
400	<b>Deferred Inflow of Resources</b>	-
<b>Equity</b>	<b>Equity</b>	
508.4	Net Investment in Capital Assets	97,200
511.4	Restricted Net Position	-
512.4	Unrestricted Net Position	497,030
513	<b>Total Equity - Net Assets/Position</b>	<u>594,230</u>
600	<b>Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position</b>	<u>\$ 898,994</u>

See notes to the Financial Data Schedule.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14,871)
<b>INCOME STATEMENT</b>		
70600	HUD PHA Operating Grants	\$ 3,058,960
71400	Fraud Recovery	66,424
71500	Other Income	3,611
72000	Investment Income - Restricted	2,914
<b>70000</b>	<b>Total Revenues</b>	<u>3,131,909</u>
<b>Expenses Administrative:</b>		
91100	Administrative Salaries	215,408
91200	Auditing Fees	-
91500	Employee Benefit Contributions - Administrative	-
<b>91000</b>	<b>Total Operating - Administrative</b>	<u>215,408</u>
96200	Other General Expenses	60,422
<b>96000</b>	<b>Total Other General Expenses</b>	<u>60,422</u>
<b>96900</b>	<b>Total Operating Expenses</b>	<u>275,830</u>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	2,856,079
97300	Housing Assistance Payments	3,161,011
97400	Depreciation Expense	13,942
<b>90000</b>	<b>Total Expenses</b>	<u>3,174,953</u>
<b>10000</b>	<b>Excess (Deficiency) of Total Revenues Over (Under) Total Expenses</b>	<u>\$ (318,874)</u>
<b>Memo Account Information:</b>		
*11030	Beginning Equity, as restated	\$ 913,104
*11170	Administrative Fee Equity	\$ 784,426
*11180	Housing Assistance Payments Equity	\$ (190,196)
*11190	Unit Months Available	501
*11210	Number of Unit Months Available	501

See notes to the Financial Data Schedule.

## **1. BASIS OF PRESENTATION**

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

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

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Direct Program:			
Community Development Block Grants – Entitlement Grants	14.218		\$ 901,272
Home Investment Partnership Program	14.239		263,151
Community Development Block Grants – Section 108 Loan Guarantee	14.248		36,301
Section 8 Housing Choice Voucher	14.871		3,058,960
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856		1,124,275
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	<u>66,850</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>5,450,809</u></b>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Pass-through the Commonwealth of Puerto Rico – Transit Safety Commission:			
Incentive Grants	20.600	Not Available	<u>623</u>
<b>Total U.S. Department of Transportation</b>			<b><u>623</u></b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>			
Pass-through the Commonwealth of Puerto Rico – Governor’s Office (Elderly Office):			
Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	188,024
Nutrition Services Incentives Program	93.053	Not Available	<u>42,181</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>230,205</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 5,681,637</u></b>

The accompanying notes are an integral part of this schedule.

**1. BASIS OF PRESENTATION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

Description	Special Revenue Fund Moderate Rehabilitation	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 1,124,275	\$ 4,557,362	\$ 5,681,637
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program and Section 8 Moderate Rehabilitation	-	374,020	374,020
Non-federal awards expenditures	-	4,519,501	4,519,501
<b>Total expenditures, fund statements</b>	<b>\$ 1,124,275</b>	<b>\$ 9,450,883</b>	<b>\$ 10,575,158</b>

**4. SECTION 108 LOAN PAYMENTS**

For the fiscal year ended June 30, 2015, the Municipality paid the amount of \$210,000 in principal as repayment of Section 108 Loan Guarantee Assistance Notes (LGA).

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



*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  
Autonomous Municipality of Trujillo Alto  
Trujillo Alto, Puerto Rico**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Trujillo Alto**, Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated January 29, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the **Autonomous Municipality of Trujillo Alto'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 **Autonomous Municipality of Trujillo Alto's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Trujillo Alto's** internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as item 2015-001 through 2015-003 that we consider 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 **Autonomous Municipality of Trujillo Alto's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2015-001.

**Autonomous Municipality of Trujillo Alto's Response to Findings**

**Autonomous Municipality of Trujillo Alto's** response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Trujillo Alto'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  
January 29, 2016

Stamp No. 2705507 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  
Autonomous Municipality of Trujillo Alto  
Trujillo Alto, Puerto Rico**

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

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

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

### **Opinion on Each Major Federal Program**

In our opinion, **Autonomous Municipality of Trujillo Alto** 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 item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

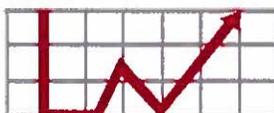
The Municipality of Trujillo Alto's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Trujillo Alto's** response was not subjected to the auditing procedures applied in the audit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

### Report on Internal Control Over Compliance

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

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

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



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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

However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item **2015-004** to be significant deficiencies.

**Autonomous Municipality of Trujillo Alto's** response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Trujillo Alto'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 **Autonomous Municipality of Trujillo Alto** in a separate letter dated January 29, 2016.

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.

  
LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico  
January 29, 2016

Stamp No. 2705508 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>Qualified for GWFS and Unmodified for FFS</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	None reported
Noncompliance material to financial statements noted?	Yes <b>X</b>	No

**Federal awards**

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

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	<b>CDBG-Entitlement grants Cluster:</b>
14.218	Community Development Block Grant-Entitlement Grant
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation Program
14.871	Section 8 Housing Choice Vouchers
	<b>US Department of Health and Human Resources</b>
93.044	Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers

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

**Section II – Financial Statements Findings**

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

<b>Finding Reference</b>	<b>2015-001</b>
<b>Requirement</b>	<b>Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans</b>
<b>Statement of Condition</b>	<p>Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.</p> <p>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.</p>
<b>Criteria</b>	<p>GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the 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.</p>
<b>Cause of Condition</b>	<p>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.</p>
<b>Effect of Condition</b>	<p>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.</p>

**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: During the 2015-2016 fiscal year

Responsible Persons: Milta Bermúdez-Finance Director

## Section II – Financial Statements Findings

<b>Finding Reference</b>	<b>2015-002</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records</b>
<b>Statement of Condition</b>	<p>During our examination of the Municipality's accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified-basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system provided by the Office of the Commissioner of Municipal Affairs (OCAM) and manual system maintained by the Finance Department's personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first years of the system operation.</p> <p>Therefore, the Municipality hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and Law 81.</p>
<b>Criteria</b>	Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system.
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
<b>Effect of Condition</b>	The Municipality accounting system did not provide updated and complete financial information that present the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
<b>Recommendation</b>	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Questioned Costs</b>	None

**Section II – Financial Statements Findings**

**Finding Reference**            **2015-002 (Continued)**

**Management Response  
and Corrective Action**

According to Article 19.002 of the Autonomous Municipalities Act of 1991, as amended, the Office of the Commissioner of Municipal Affairs [known as OACM], is responsible for the design and implementation of a computerized accounting system for the Municipalities. Such system was designed and partially implemented during the years 1990-1992, but since then it has never been updated nor finally implemented as it was originally contemplated. This situation resulted in a lack of an adequate accounting tool for the majority of the local governments of the island. Although the Legislature of the Commonwealth Government of Puerto Rico has appropriated funds for the design and implementation of a new system, no further action was taken. After consulting with the OACM, the Office delegated in the Municipalities the acquisition or implementation of computerized accounting systems.

The Municipality's Management concurs with the finding. At present, the Municipality is in the process of implementation of a new computerized system which will make feasible the use of certain accounting applications, which among other things, will attend the deficiency described in the caption.

Implementation Date: January 2016

Responsible Person: Milta Bermúdez, Finance Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2015-003</b>
<b>Requirement</b>	<b>Operating deficit of general fund</b>
<b>Statement of Condition</b>	As of June 30, 2015, the Municipality closed with an accumulated unassigned (deficit) fund balance of \$4,961,115 in the general fund as presented in the balance sheet-governmental funds.
<b>Criteria</b>	<p>Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that provides that accrued deficit in the Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.</p> <p>Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (the regulation) states that the Municipality should prepare the annual budget using the next revenues in order to avoid operational deficits.</p>
<b>Cause of Condition</b>	The overstatement of estimated revenues and/or the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
<b>Effect of Condition</b>	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.
<b>Recommendation</b>	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	Management is aware of the continued trend of accumulated deficits been reflected in the Municipality's financial statements during the last four fiscal years ending of June 30, 2012, 2013, 2014 and 2015. Such deficits are mainly attributable to various factors related to the serious economic recession being faced by the Island for more than eight years. Such event is beyond management control. The real estate sector has been one of the most adversely affected by the economic contraction. Contractors and investors have assumed a more conservative position in project development, especially in the area of housing since the prevailing market environment has moved sales to the real estate owned (REO's).

**Section II – Financial Statements Findings**

**Finding Reference**            **2015-003 (Continued)**

**Management Response  
and Corrective Action**        (Continued)

This in turn has remarkably limited the collection of a special taxes levied by the Municipality over construction costs. Sources of financing from financial institutions have been highly controlled by federal regulators.

In view of the aforementioned situation, management has adopted a conservative approach towards revenues estimates and has implemented a cost control program that helped attain additional savings in current expenses. Such control includes among others, wages and salaries, fringe benefits, maintenance expenses and other related items.

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Milta Bermúdez, Finance Director

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

<b>Finding Reference</b>	<b>2015-004</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program (CFDA 14.871); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Financial Reporting</b>
<b>Statement of Condition</b>	During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS system does not agree with its annual financial submission to HUD through the FASS-PH system.
<b>Criteria</b>	<p>OMB Common Rules, Subpart C, Part .20 (b) (2), Accounting records, states that the grantees and sub-grantees must maintain records, which adequately identify the source and application of funds, provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.</p> <p>The Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20, Financial Management, states the financial record keeping and management requirements with respect to Housing Assistance Payments Program Projects under annual contribution contracts.</p>
<b>Cause of Condition</b>	The Municipality did not maintain appropriate procedures in order to assure the financial information is accounted and reported accurately to the federal agencies.
<b>Effect of Condition</b>	The Municipality is not in compliance with the OMB Common Rules, Subpart C, Part .20 (b) (2) and with the Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20.
<b>Recommendation</b>	<p>We recommend Management to instruct the Program's accountant to follow financial management and accounting procedures established in the Voucher Program Guidebook-Housing Choice (7420.10G), Chapter 20, Financial Management.</p> <p>Also, we recommended Management to follow the requirements included in the HUD PHA GAAP Conversion Guide, prepared by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).</p>
<b>Questioned Costs</b>	None

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

**Finding Reference**      **2015-004 (Continued)**

**Management Response  
and Corrective Action**

The Municipality of Trujillo Alto is currently reviewing its financial procedures to ensure that any and all reporting to any entity is accurate and based on HUD requirements. This activity is part of an internal Action Plan and is scheduled to be completed by June 30, 2016.

Implementation Date: Immediately

Responsible Person: Mrs. Yadira Mercado García, Director of the Municipal Housing Office

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
14-04	14.856	<p><u>During our audit, we noted that the HUD-52681, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169) was not submitted for the year audited.</u></p> <p>Full corrective action was taken.</p>
14-05	14.871	<p><u>During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS system does not agree with its annual financial submission to HUD through the FASS-PH system.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference <b>2015-004</b>.</p>
14-06	14.218	<p><u>HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2014.</u></p> <p>Full corrective action was taken.</p>
13-05	14.218	<p><u>HUD-60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons, (OMB No. 2529-0043) was not submitted for the fiscal year ended June 30, 2013.</u></p> <p>Full corrective action was taken.</p>