

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

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

30 DE JUNIO DE 2015

Rec'd.
Electronically
Exp 28 de mayo 2016
[Signature]

INDEPENDENT AUDITOR'S REPORT

BASIC FINANCIAL STATEMENT

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA**

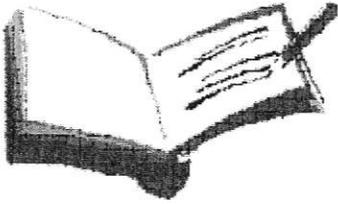
YEAR ENDED JUNE 30, 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA**

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MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS (AICPA)
PUERTO RICO SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS

CPA AGUSTÍN RODRÍGUEZ NIEVES
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the Municipal Legislature
Municipality of Vega Alta
Vega Alta, Puerto Rico

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 Municipality'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 Municipality's internal control.

Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4–13 and 54–55 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual non-major fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other information, such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates 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 my opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 20, 2015 on my consideration of the Municipality's internal control over financial reporting and on my 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 my 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.

Toa Alta, Puerto Rico
November 20, 2015



CPA Agustín Rodríguez Nieves
Expires December 1, 2016
License # 4314

Stamp No. 02714050 of Puerto Rico Society of Certified Public
Accountants was affixed to the original report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Management's Discussion and Analysis
June 30, 2015

As management of the Municipality of Vega Alta, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Municipality's has reported assets and net position amounting to \$ 81,433,361 and \$ 49,288,245 respectively, in the accompanying statement of net position, of which the most significant assets are capital assets amounting to \$52,187,574 (61 percent of total Municipality's assets).
- The Municipality has reported total liabilities amounting to \$30,702,776 in the accompanying statement of net position, of which the most significant liabilities are: (1) account payables and accrued liabilities (\$926,656), (2) bonds payable (\$23,907,000) and (3) intergovernmental (\$2,453,738). These liabilities account for 89 percent of the Municipality's total liabilities at June 30, 2015.
- The Municipality has reported total revenues amounting to \$22,971,657 in the accompanying statement of activities, of which: (1) municipal license tax (\$2,285,776), (2) restricted capital and operating grants (\$2,625,600), (3) property taxes (\$10,179,963) and (4) intergovernmental contributions (\$3,035,459) were the most significant revenues amounting to \$18,126,798 (79 percent of total revenues).
- The Municipality has reported a net change in net position (excess of revenue over expenses) amounting to (\$1,750,588) in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances of \$21,844,137 of which \$12,088,138 represent the fund balances of the general fund, and the debt service fund combined, \$6,120,000 Loan, (jointly known as the Municipality's major funds).
- The Municipality has reported unassigned fund balance for the general fund amounting to \$4,234,715.
- The Municipality has reported an excess of expenditures over revenues and other financing sources amounting to \$3,968,734 in the governmental funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Management's Discussion and Analysis
June 30, 2015

USING THIS ANNUAL REPORT

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: (1) the government-wide financial statements, (2) the fund financial statements, and (3) the notes to the financial statements (collectively known as the basic financial statements). This report also contains additional required supplementary information (budgetary schedule) in addition to the basic financial statements themselves. These components are described below:

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Government-Wide Financial Statements (continuation)

This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2015 even if cash involved have not been received or paid. The government-wide financial statements include: (1) the statements of net position and (2) the statement of activities.

Statement of Net Position

The statement of net position presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity). Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

COMMONWEALTH OF PUERTO RICO
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Statement of Activities

The statement of activities presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2015. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (such as federal grants). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like most other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Each fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial and contractual provisions.

The fund financial statements focus on: (1) individual parts of the Municipality's government and (2) reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: (1) general fund, (2) debt service fund, (3) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year (June 30, 2015). This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed

COMMONWEALTH OF PUERTO RICO
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Fund Financial Statements (cont)

short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has three major funds: (1) the general fund, (2) the debt service fund and (3) 6,120,000 Loan.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the basic financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2003, the Municipality retroactively recorded the historical costs of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

COMMONWEALTH OF PUERTO RICO
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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net position (excess of assets over liabilities) amounted to \$49,288,245 at June 30, 2015.

The largest portions of the Municipality's net position are invested in capital assets net of their related debt which amount to \$29,937,802. The Municipality's net position are also composed of net position amounting to \$17,508,393 that are restricted for (1) future debt service payments, (2) the future acquisition or construction of capital assets and (3) other purposes. In addition, the Municipality's net position are reported net of an unrestricted net position of \$1,842,050.

The portion of the Municipality's net position invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens. Consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

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COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis
June 30, 2015

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

Condensed Statement of Net Assets:

	<u>2014</u>	<u>2015</u>
Current and other assets	\$ 6,549,635	\$ 7,464,074
Noncurrent and other assets	<u>79,485,922</u>	<u>73,969,286</u>
Total assets	<u>86,035,557</u>	<u>81,433,361</u>
Long-term liabilities outstanding	25,495,376	23,539,948
Other liabilities	<u>7,951,355</u>	<u>7,162,828</u>
Total liabilities	<u>33,446,731</u>	<u>30,702,776</u>
Deferred Inflows of Resources	1,549,993	1,442,340
Net position/(deficit):		
Invested in capital assets, net of related debt	29,937,802	29,937,802
Restricted	19,264,981	17,508,393
Unrestricted	<u>1,836,050</u>	<u>1,842,050</u>
Total net position	<u>\$ 51,038,833</u>	<u>\$ 49,288,245</u>

Changes in Net Position

The Municipality's increased during the year. Approximately 13 percent of the Municipality's total revenues came from intergovernmental contributions, while 20 percent resulted from other municipal taxes and 44 percent from property taxes. The Municipality's expenses cover a range of services. The largest expenses were for general government (53 percent), urban and economic development (6 percent), public safety (8 percent) and health and sanitation (16 percent).

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Management's Discussion and Analysis
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The following is a condensed presentation of the Municipality's results of operations, as reported in the government-wide financial statements:

Condensed Statement of Activities:

	2014	2015
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 1,881,991	\$ 1,753,035
Capital grants and contributions	484,978	872,565
General revenues:		
Property taxes	7,289,568	10,179,963
Municipal license taxes	2,681,569	2,285,776
Municipal sales taxes	2,249,908	2,337,024
Licenses and permits	570,186	395,545
Intergovernmental contributions	1,744,848	3,035,459
Other	4,061,222	2,112,290
Total revenues	20,964,270	22,971,657
General government	11,171,864	13,094,694
Urban and economic development	1,849,395	1,456,576
Public safety	2,042,467	1,985,751
Health and sanitation	3,356,902	4,067,229
Culture, recreation and education	926,162	1,387,209
Public housing and welfare	1,105,660	1,274,551
Interest	1,222,947	1,456,236
Total expenses	21,675,397	24,722,245
Net increase in net position	(711,127)	(1,750,588)
Net position - at beginning of year	51,749,960	51,038,833
Net position - at end of year	\$ 51,038,833	\$ 49,288,245

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

As discussed 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 balance of expendable *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 fiscal year.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Management's Discussion and Analysis
June 30, 2015

The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet - Governmental funds:

	2014	2015
Total Assets - Major Funds	\$ 23,029,682	\$ 18,702,860
Total Assets - Nonmajor Funds	14,037,807	10,659,370
Total assets	37,067,489	29,362,230
Total Liabilities - Major Funds	7,997,727	5,172,382
Total Liabilities - Nonmajor Funds	1,706,896	903,371
Total liabilities	9,704,623	6,075,753
Deferred inflow of Resources	1,549,993	1,442,340
Fund Balances - Major Funds	13,505,864	12,088,138
Fund Balances - Nonmajor Funds	12,307,009	9,755,998
Total net position	25,812,873	21,844,137

Condensed Statement of Operations - Governmental funds:

Total Revenues - Major Funds	18,213,229	19,870,618
Total Revenues - Nonmajor Funds	2,757,772	3,151,342
Total revenues	20,971,001	23,021,960
Total expenditures - Major Funds	16,441,246	21,288,342
Total expenditures - Nonmajor Funds	6,805,236	5,702,352
Total expenditures	23,246,483	26,990,694
Other Financing Sources - Nonmajor Funds		
Other Financing Uses - Nonmajor Funds		
Other Financing Sources - Major Funds		
Revenues Over Expenses - Major	1,771,983	(1,417,724)
Revenues Over Expenses - Nonmajor	(4,047,464)	(2,551,010)
Total net position	\$ (2,275,481)	\$ (3,968,734)

GENERAL FUND BUDGETARY HIGHLIGHTS

The accompanying Budgetary Comparison Schedule shows a total negative variance between budgeted revenues and actual revenue results of \$182,062, which was mainly caused by a reduction of Licenses and Permits.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Management's Discussion and Analysis
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net position reported total gross capital assets, at cost, amounting to \$113,267,232 of which \$39,919,489 represents infrastructure assets at June 30, 2015. The related accumulated depreciation and amortization of capital assets amounted to \$61,079,658 of which \$33,643,181 is related to infrastructure assets at June 30, 2015. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were \$4,424,026 for the year ended June 30, 2015. Depreciation and amortization charges for the year totaled \$4,294,328.

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

Debt Administration

The laws and regulations of the Commonwealth of Puerto Rico have 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 laws and regulations also require that in order for a municipality to be able to issue additional general obligation bonds and notes, such municipality must have sufficient "payment capacity". Act No. 64 provides that a municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption fund and the annual amounts collected with respect to such municipality's Special Additional Tax, as projected by the Government Development Bank for Puerto Rico, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

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

COMMONWEALTH OF PUERTO RICO
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Management's Discussion and Analysis
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ECONOMIC FACTORS AND NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable.

Those factors were considered when preparing the Municipality's budget for the 2015-2016 fiscal years. There were no significant changes between the budget for fiscal year 2014-2015 and the one for fiscal year 2013-2014.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and demonstrate the Municipality's' accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Mr. Damián Pabón, at P.O. Box 1390, Vega Alta, Puerto Rico, 00692-1390.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Statement of Net Position
June 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents (notes 1g and 3)		\$ 4,570,519
Receivables, net of allowance for doubtful accounts (note 1h):		
Taxes:		
Property taxes (note 5)	\$ -	
Sales taxes (note 4 b)	127,727	
Municipal license taxes (note 4 a)	<u>18,170</u>	
Total taxes receivable	145,897	
Intergovernmental (note 1h and 7)	2,686,758	
Other	<u>60,900</u>	
Total receivables	2,747,658	<u>2,893,555</u>
Total current assets		<u>7,464,074</u>

Noncurrent Assets:

Temporarily restricted cash and cash equivalents (notes 1g and 3)		21,670,006
Investments		111,706
Capital assets, net of accumulated depreciation and amortization (notes 1m and 8)		<u>52,187,574</u>
Total noncurrent assets		<u>73,969,286</u>
Total assets		<u>\$ 81,433,361</u>

The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Statement of Net Position
June 30, 2015

LIABILITIES

Current liabilities:

Accounts payable and other accrued liabilities (notes 1h)	\$	926,656
Intergovernmental (note 1h and 7)		2,453,738
Interest Payable		694,142
Christmas Bonus		192,500
Legal Claims		-
Deposits		36,898
Accrued compensated absences, excluding long-term portion (note 1o)		950,758
Notes Payable Doral - current portion		111,706
Notes payable CRIM - current portion		10,430
Bonds payable (notes 1q and 11)		<u>1,786,000</u>
Total current liabilities		<u>7,162,828</u>

Noncurrent liabilities:

Accrued compensated absences, excluding current portion (notes 1o)		1,252,048
Bonds and notes payable, excluding current portion (notes 1q and 11)		22,121,000
Note Payable -Doral - net of current portion		
Note Payable -CRIM - net of current portion		<u>166,900</u>
Total noncurrent liabilities		<u>23,539,948</u>
Total liabilities		<u>30,702,776</u>

Deferred Inflows of Resources:

Deferred Inflow of Resources (notes 1n, 4 a)		1,442,340
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NET POSITION

Invested in capital assets, net of related debt	<u>29,937,802</u>	
Restricted for (1j):		
Debt service	3,834,183	
Federal and State Assistance		
Other Specific Purpose	<u>13,674,210</u>	
Total restricted net assets	<u>17,508,393</u>	
Unrestricted net asset	<u>1,842,050</u>	
Total net assets		<u>49,288,245</u>
Total Liabilities and Net Position		<u>\$ 81,433,361</u>

The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net Expenses and Changes in Net Assets
		Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 13,094,694	\$ 653,265	\$ 872,565	\$ (11,568,863)
Urban and economic development	1,456,576	-	-	(1,456,576)
Public safety	1,985,751	5,317	-	(1,980,434)
Sanitation and environmental control	4,067,229	-	-	(4,067,229)
Culture, recreation and education	1,387,209	-	-	(1,387,209)
Public housing and welfare	1,274,551	1,094,453	-	(180,099)
Interest on bonds, notes, capital lease obligations and long-term debt (notes 11)	1,456,236	-	-	(1,456,236)
Total governmental activities	\$ 24,722,245	\$ 1,753,035	\$ 872,565	\$ (22,096,645)

General revenues:

Taxes:

Property taxes (note 5)	\$ 10,179,963
Municipal license taxes (note 4)	2,285,776
Municipal Sales Tax	2,337,024
Licenses and permits	395,545
Total taxes	15,198,308
Intergovernmental contributions and reimbursements	3,035,459
Investment Earnings	741,735
Other revenues	1,370,555
Total general revenues	20,346,057
Net change in net assets	(1,750,588)
Other Financial source	-
Net position-beginning of fiscal year, as restated	51,038,833
Net position-end of fiscal year	\$ 49,288,245

The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Balance Sheet
Governmental Funds
June 30, 2015

	Major			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	\$6,120,000 Loan Fund		
ASSETS					
Unrestricted cash and cash equivalents (note 1g and 3)	\$ 4,570,519	\$ -	\$ -	\$ -	\$ 4,570,519
Receivables, net of allowance for doubtful accounts:					-
Taxes:					-
Property taxes (note 5)	-	-	-	-	-
Municipal license tax (note 4 a)	18,170	-	-	-	18,170
Sales Tax Receivable (note 4 b)	127,727	-	-	-	127,727
Due from other funds (note 6)	147,008	-	-	17,560	164,568
Due from governmental entities (note 7)	2,321,155	-	-	317,478	2,638,633
Other Receivable	50,832	-	-	10,068	60,900
Investments	111,706	-	-	-	111,706
Temporarily restricted cash and cash equivalents (note 1g and 3)	965,289	6,328,076	4,062,378	10,314,263	21,670,006
Total assets	\$ 8,312,406	\$ 6,328,076	\$ 4,062,378	\$ 10,659,370	\$ 29,362,230

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The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Balance Sheet
 Governmental Funds
 June 30, 2015

	General Fund	Debt Service Fund	\$6,120,000 Loan Fund	Other Governmental Funds	Total Governmental Funds
LIABILITIES					
Account payable and accrued liabilities (notes 1h)	\$ 271,982	\$ -	\$ 26,865	\$ 627,809	\$ 926,656
Due to other funds (note 6)	-	-	16,273	148,295	164,568
Intergovernmental (note 7)	2,326,471	-	-	127,267	2,453,738
Deposits	36,898				36,898
Bonds , notes and interests	-	2,493,893	-	-	2,493,893
Total liabilities	\$ 2,635,351	\$ 2,493,893	\$ 43,138	\$ 903,371	\$ 6,075,753
Deferred Inflow of Resources (notes 1n and 9)	1,442,340	-	-	-	1,442,340
FUND BALANCES					
Nonspendable					
Restricted					
Debt Services Reserve	\$ -	\$ 3,834,183	\$ -	\$ -	\$ 3,834,183
State and Federal assistance					-
Other Purposes	-	-	-	334,212	334,212
Committed	-	-	4,019,240	6,906,282	10,925,522
Assigned	-	-	-	2,515,504	2,515,504
Unassigned	4,234,715	-	-	-	4,234,715
Total fund balances	4,234,715	3,834,183	4,019,240	9,755,998	21,844,137
Total liabilities and fund balances	\$ 8,312,406	\$ 6,328,076	\$ 4,062,378	\$ 10,659,369.45	\$ 29,362,230

The accompanying notes to the basic financial statement are an integral part of this statement

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Statement of Revenue, Expenditure and
Changes in Fund Balances- Governmental Funds
Year ended June 30, 2015

REVENUES:	Major			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	\$6,120,000 Loan Fund		
Taxes:					
Property taxes (note 5)	\$ 8,521,667	\$ 1,658,296	\$ -	\$ -	\$ 10,179,963
Municipal license taxes (note 4a)	2,285,776	-	-	-	2,285,776
Municipal Sales taxes (note 4b)	1,555,824	781,200	-	-	2,337,024
Licens, permit and fines	345,110	-	-	50,435	395,545
Intergovernmental Revenues	2,890,557	-	-	1,067,770	3,958,327
Investment Earnings	731,639	4,567	-	5,529	741,735
Federal grants and contributions	-	-	-	1,735,338	1,735,338
Rent	328,197	-	-	59,345	387,542
Other Revenues	767,785	-	-	232,925	1,000,710
Total revenues	<u>17,426,555</u>	<u>2,444,063</u>	<u>-</u>	<u>3,151,342</u>	<u>23,021,960</u>
EXPENDITURES:					
Current:					
General government	10,890,304	-	710	2,255,869	13,146,883
Highway and Urban Development	-	-	-	-	-
Public safety	1,034,515	-	-	5,317	1,039,832
Sanitation and Enviromental control	2,857,660	-	-	5,674	2,863,334
Culture and education	840,348	-	-	30,907	871,255
Public housing and welfare	122,828	-	-	1,108,727	1,231,555
Capital outlays	57,073	-	2,071,096	2,295,857	4,424,026
Debt service:					
Principal (notes 1q and 11)	-	1,957,544	-	-	1,957,544
Interest on bonds and notes (notes 11)	-	1,456,266	-	-	1,456,266
Total expenditures	<u>15,802,728</u>	<u>3,413,810</u>	<u>2,071,806</u>	<u>5,702,350</u>	<u>26,990,693</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>1,623,827</u>	<u>(969,747)</u>	<u>(2,071,806)</u>	<u>(2,551,008)</u>	<u>(3,968,734)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds (note 10)	-	-	-	-	-
Operating transfer-in from other funds (note 6)	4,233	773,699	-	61,431	839,363
Operating transfer-out to other funds (note 6)	(773,699)	(4,233)	-	(61,431)	(839,363)
Total other financing sources (uses)	<u>(769,466)</u>	<u>769,466</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCIAL USED	<u>854,361</u>	<u>(200,281)</u>	<u>(2,071,806)</u>	<u>(2,551,008)</u>	<u>(3,968,734)</u>
FUND BALANCES BEGINNING OF YEAR, (noted 13)	<u>3,380,354</u>	<u>4,034,464</u>	<u>6,091,046</u>	<u>12,307,008</u>	<u>25,812,872</u>
Prior Period Adjustment					
FUND BALANCES AT END OF YEAR	<u>\$ 4,234,715</u>	<u>\$ 3,834,183</u>	<u>\$ 4,019,240</u>	<u>\$ 9,756,000</u>	<u>\$ 21,844,137</u>

The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Reconciliation of Balance Sheet
 Governmental Funds to the Net Position Statement
 Year ended June 30, 2015

Amounts reported as Net Assets for Governmental Activities in the Statement of Net Assets is different than the amount reported as Fund Balance in the Governmental Fund Balance Sheet because:

Total Fund Equity as Show on the Balance Sheet - Governmental Funds		\$ 21,844,137
Capital Asstes used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		52,187,574
Long-term liabilities, including bond payable, are not an obligation of current financial resources and, therefore, are not reported in the governmental funds		
Bonds, and other long term debt	\$ (22,396,283)	
Accrued obligations - Compensated Absences	(2,202,806)	
Accrued obligations - Christmas Bonus	(192,500)	(24,791,589)
Long-term receivable are not a receivable of the current financial resources and, therefore, are not reported in the governmental funds		
Property tax	\$ -	
Intergovernmental Receivable	48,123	48,123
Net Position of Governematl Activities		<u>\$ 49,288,245</u>

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The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Reconciliation of Statement of Revenues, Expenditures
 and Changes in Fund Balances Governmental Funds to the Statement of Activities
 Year ended June 30, 2015

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

Net change in fund balances as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds	\$ (3,968,734)
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	4,424,026
Depreciation expense	(4,294,328)
Repayment of bond and notes principal is recorded as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,957,544
Expenditures and revenue recorded for government-wide and not for governmental funds	<u>130,904</u>
Net change in net assets as reported in the accompanying statement of activities	<u><u>\$ (1,750,588)</u></u>

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The accompanying notes to the basic financial statement are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

1. GOVERNMENTAL ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government Background Information

The Municipality of Vega Alta of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1871 with full legislative, fiscal and administrative powers to operate as a government. The Municipality assumes responsibility for public safety, health and sanitation, public housing and welfare, culture and education, urban development and many other general and administrative duties.

The laws and regulations of the Commonwealth of Puerto Rico (the "Commonwealth") provide for separation of powers of the executive, legislative and judicial branches of the Commonwealth's and the Municipalities' governments. The executive power of the Municipality is exercised by a Mayor, who is elected every four years and is assisted by the Administrative Cabinet, which is appointed by the Mayor. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

B. Financial Reporting Entity

The accounting policies and financial reporting practices of the Municipality conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments.

According to GAAP, the financial reporting entity for the Municipality consists of: (1) the primary government, which is composed of all municipal departments and units under the legal and administrative control of the Mayor and the Municipal Legislature, and (2) all component units.

In evaluating how to define the Municipality for financial reporting purposes, the Municipality's management has addressed all potential entities and organizations that may be considered component units according to the criteria set forth by Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*, both issued by the Governmental Accounting Standards Board.

GAAP defines component units as those entities that: (1) are legally separate organizations for which the Municipality's elected officials are financially accountable, and (2) other organizations for which the nature and significance of their relationship with the Municipality are such that exclusion of their financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete. Financial accountability exists if the Municipality appoints a voting majority of the organization's governing body, and if either one of the following conditions exist: (1) the Municipality can impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

B. Financial Reporting Entity (cont.)

GASB Statement No. 39, which was early adopted by the Municipality on July 1, 2003, amended the provisions of GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the Municipality is not financially accountable should be reported as component units based on the nature and significance of their relationship with the Municipality. Generally, GASB Statement No. 39 requires reporting, as a discretely presented component unit, an organization that raises and holds economic resources for the direct benefit of a governmental entity. Such organizations are legally separate, tax-exempt entities that meet all of the three specific criteria that address benefit, entitlement or access, and significance.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations considered component units of the Municipality according to GAAP as of June 30, 2015 nor for the year then ended.

C. New Accounting Pronouncements

Statement No. 67 *Financial Reporting for Pension Plans* an amendment of GASB Statement No. 25-The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans* and *Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions.

Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for non-employer governments that have a legal obligation to contribute to those plans.

This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2014.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

C. New Accounting Pronouncements (cont.)

Statement No. 68 *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27—The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

This Statement is effective for fiscal years beginning after June 15, 2014.

D. Measurement Focus and Basis of Accounting

The term measurement focus refers to what is being expressed in reporting financial position and performance, that is, which resources are being measured in the accompanying basic financial statements. Two different measurement focuses have been applied in the accompanying basic financial statements: (1) the flow of current financial resources and (2) the flow of economic resources. Basis of accounting refers to when transactions have been recognized in the accompanying basic financial statements.

GAAP provides for the use of two different bases of accounting, which have been used in the accompanying basic financial statements: (1) the accrual basis and (2) the modified accrual basis.

The accompanying government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant inter-fund activities have been eliminated from these government-wide financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

D. Measurement Focus and Basis of Accounting (cont.)

The accompanying fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available (that is, earned and collected or expected to be collected within the next 90 days following the fiscal year-end) to pay liabilities of the current period, except property tax revenues, for which the availability period is 60 days.

In applying the susceptible to accrual concept to intergovernmental revenue in the accompanying fund financial statements, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, generally recognized as expenditures are incurred. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In the accompanying fund financial statements, expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred, except for: (1) principal payment and interest on long-term obligations, which are recorded when due, except for principal and interest due in July 1 of the following fiscal year which are recorded when resources are available in the debt service funds (generally June 30); and (2) vacation leave, sick leave, Christmas bonuses, obligations under capital leases, amounts subject to judgments under litigation, and other long-term obligations, which are recorded under the accrual basis of accounting in the accompanying government-wide financial statements.

In December 1998, the Governmental Accounting Standards Board issued Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* ("GASB 33"), effective for financial statement for periods after June 15, 2000, which the Municipality adopted on July 1, 2003. This statement established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return.

This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups non-exchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed non-exchange revenue; (c) government mandated non-exchange transactions; and (d) voluntary non-exchange transactions.

The adoption of this statement altered significantly the basis of accounting used by the Municipality for the recognition of revenue and expenditures and related assets and liabilities, as described above. The effect of the adoption of this pronouncement has been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly,

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

D. Measurement Focus and Basis of Accounting (cont.)

the cumulative effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

E. Major and Non-major Funds

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

- (a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and,
- (b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

Based on the above-mentioned criteria, the Municipality's general fund, the debt service fund, and \$6,120,000 Loan are the only three funds that qualify as major funds for the fiscal year ended June 30, 2015, and accordingly, have been reported as major funds in the accompanying fund financial statements. All other governmental funds of the Municipality are considered non-major for financial reporting purposes.

The Municipality's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received.

F. Statutory (Budgetary) Accounting

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

In the governmental funds, encumbrance accounting is a under the statutory basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure significant aspect of budgetary control.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

F. Statutory (Budgetary) Accounting (cont.)

The accompanying budgetary comparison schedule – general fund, only presents the information for the general fund, which is the only Municipality’s fund with a legally adopted budget, as required by GAAP.

Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in the deficiency of revenues and other financing sources under expenditures and other uses of financial sources for the year ended June 30, 2015 was presented for the general fund as part of the accompanying budgetary comparison schedule.

G. Cash and Cash Equivalents

The Municipality’s cash and cash equivalents are composed of cash on hand, demand deposits, and short-term investments in certificates of deposit with original maturities of three months or less from the date of acquisition.

The Municipality follows the practice of pooling cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing deposits with private commercial banks.

Cash with fiscal agent in the debt service fund represents additional property tax collections retained by the Municipal Revenue Collection Center (“CRIM”, by its Spanish Acronym), a municipal corporation (not a component unit of the Commonwealth or of the Municipality) and additional portion of sales taxes collected and distributed by P.R. Treasury Department and deposited in P.R. Governmental Bank. Such cash balances are restricted for the payment of the Municipality’s debt service, as established by law.

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of inter-fund loans).

Tax receivables in the general fund represent amounts owed by taxpayers principally for individual and corporate property taxes, municipal license taxes and construction excise taxes. A portion of these tax receivables is recognized when they become measurable and available based on actual collections during the 60 days following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers from taxable years prior to June 30, 2015, estimated to be collectible but not currently available, as a result of the adoption of GASB 33.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

H. Receivables and Payables (cont.)

Accounts receivables are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions. Intergovernmental receivables mainly represent amounts owed to the Municipality by the Commonwealth and the federal government of the United States of America for: (1) intergovernmental charges, and (2) for reimbursement of expenditures incurred pursuant to federally funded programs, respectively. In the accompanying government-wide financial statements, receivables consist principally of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based upon historical trends and the periodic aging of accounts receivable.

Major receivable balances for the governmental activities include municipal license taxes, property taxes and construction excise taxes, among others.

Non-exchange transactions collectible but not available are deferred in the accompanying fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the accompanying government-wide financial statements in accordance with the accrual basis of accounting. Interest income is recorded when earned only if collected within 90 days after year-end since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. Inventories and Prepaid Expenses

Inventories consist of materials and supplies held for consumption. Generally, inventories and prepaid expenses are valued at cost and predominantly on the first-in, first-out basis. Governmental fund inventories and prepaid expenses are recorded as expenditures (consumption method) when purchased rather than capitalized as an asset. Only significant amounts of inventory and prepaid expenses at the end of the year would be capitalized, if any, in the governmental funds. However, inventories are always capitalized (purchase method) in the statement of net position.

J. Temporarily Restricted Assets

Certain cash and cash equivalents set aside by the general fund, the capital projects fund and the special revenue fund are classified as temporarily restricted assets since their use is limited

For: (a) the compliance with debt service requirements of bonds and notes payable as established in the respective debt agreements, (b) the funding of construction and permanent improvement projects, and (c) the funding of federal and state sponsored programs.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

K. Inter-fund Transactions

Permanent reallocations of resources between the Municipality's funds are classified as inter-fund transfers. The Municipality has the following types of transactions recorded among funds in the accompanying fund financial statements:

- ***Operating Transfers*** – Legally required transfers that are reported when incurred as “operating transfers-in” by the recipient fund and as “operating transfer-out” by the disbursing fund.
- ***Inter-fund Payments (Quasi-external Transactions)*** – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditure of the disbursing fund.

For the purposes of the accompanying government-wide statement of activities, all inter-fund transfers between individual governmental funds have been eliminated.

L. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Municipality as a whole, such as land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works, infrastructure and all other intangible assets that are used in the operations of the Municipality and that have initial useful lives extending beyond a single reporting period (fiscal year). Infrastructure assets are generally immovable in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets. In the accompanying government-wide statement of net position, all individual capital assets over the threshold amount of \$500 have been capitalized and depreciated.

In the accompanying government-wide statement of net position, all capital assets are valued at their historical cost or estimated historical cost if actual is unavailable, except for donated capital asset; which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2015. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

All capitalized assets are depreciated over their estimated useful lives under the straight-line method. All individual capital assets under the above mentioned capitalization threshold are charged directly to expense in the accompanying government-wide statement of activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

L. Capital Assets(cont)

The estimated useful lives of major capital asset categories are:

Land improvements	20 years
Building and buildings improvements	50 years
Infrastructure	20 to 50 years
Motor vehicles	7 to 10 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

Equipment held under capital leases is depreciated under the shorter of its estimated useful life of the assets or the lease term. Capital assets are recorded as capital outlays expenditures in the acquiring fund for the purposes of the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds.

M. Deferred Inflows of Resources

The Municipality reports Deferred Inflows of Resources on its basic financial statements. Deferred Inflows of Resources arises when potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period. Available is defined as due (or past due) at June 30, and collected within 60 days (60 days for property taxes) thereafter to pay obligations due at June 30. Deferred Inflows of Resources also arise when the Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Municipality has a legal claim to the resources, the liability for Deferred Inflows of Resources is removed and revenue is recognized. Deferred Inflows of Resources at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them. Deferred Inflows of Resources at June 30, 2015 amounted to \$1,442,340 in the accompanying government-wide statement of net position and balance sheet – governmental funds, respectively.

N. Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board (GASB 16).

Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net position is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the

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N. Compensated Absences (cont.)

amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per year). Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each year if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each year, if not consumed. Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave days is not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time. At June 30, 2015, the Municipality has recorded a liability for compensated absences amounting to \$2,202,806 in the accompanying government-wide statement of net position.

O. 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 if any.

P. Long-Term Debt

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statement of net position, except for principal and interest payment on long-term obligations due in July 1 of the following fiscal year, which is recorded in the fund financial statements when resources are available in the debt service fund (generally at June 30). Bonds and notes premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the debt in the accompanying government-wide financial statements.

Long-term debt for governmental funds is generally not reported as liabilities in the fund financial statements.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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Q. Risk Financing

The Municipality purchases commercial insurance covering casualty, theft, tort claims, and other losses. The Commonwealth, through its Department of Treasury, pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments. The current insurance policies have not been canceled or terminated. For workers' compensation and disability insurance, the Municipality obtains insurance coverage through the State Insurance Fund Corporation (a component unit of the Commonwealth) and the Occupational Disability Fund (which is a trust fund administered by the Department of Labor and Human Resources of the Commonwealth).

R. Total Columns

Total columns on the fund financial statements are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position or results of operations in conformity with GAAP. Such data is not comparable to a consolidation since inter-fund eliminations have not been made in the accompanying fund financial statements.

S. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the Municipality's management to make significant 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

T. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2015:

- Statement No. 65 *Items Previously Reported as Assets and Liabilities*-This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously

Reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established

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T. Future Adoption of Accounting Pronouncements (cont)

after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2014. Earlier application is encouraged.

The Municipality has not yet determined the effect this statement will have on the Municipality's financial statements.

- Statement No. 69 *Government Combinations and Disposals of Government Operations*- This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combination* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger.

Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration.

This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

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T. Future Adoption of Accounting Pronouncements (cont)

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2015, and should be applied on a prospective basis. Earlier application is encouraged.

The Municipality has not yet determined the effect this statement will have on the Municipality's financial statements.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Municipality's general fund is the only governmental fund for which an annual budget is legally adopted. The Municipality's elected Mayor is legally required to prepare and submit to the elected Municipal Legislature an annual balanced budget for the ensuing fiscal year. The annual budget is prepared by the Municipality's Department of Finance, and takes into consideration the advice provided by all municipal departments and divisions. The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year, unless the imposition of taxes sufficient to cover said appropriations is provided by law.

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other financing resources of the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) municipal legislative measures proposed by the Mayor and submitted with the proposed budget, as well as the Mayor' recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year governmental plan adopted by the Municipality.

The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon approval by the Municipal Legislature, the budget is referred to the Mayor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections.

If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits the.

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2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

Municipality to continue making payments for its operations and other purposes until the new budget is approved

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP. Accordingly, for budgetary purposes the Municipality uses encumbrance accounting. The encumbrances (principally purchase orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The encumbered balance of any appropriation of the general fund at the end of the fiscal year will lapse to the following fiscal year. In addition, the Municipal Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual department or division of the Municipality. However, the Municipality is statutorily required to satisfy the debt service requirements, regardless of whether such amounts are appropriated or not.

Appropriations are enacted for certain departments and divisions. Appropriations for capital projects are made for each bond/note issue and the authorization continues for the expected construction period.

The Municipality's Finance Department has the responsibility to ensure that budgetary spending control is maintained on an individual department/division basis. The Finance Department may transfer part or all of any encumbered balance within a department to another department subject to approval. Budgetary control is exercised through the Municipality's accounting system. This system ensures that encumbrances or expenditures are not processed if they exceed the department/division's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for the general fund expenditures, principal and interest due for the year for the debt service fund, and by bond/note authorization for capital expenditures.

3. CASH AND INVESTMENTS

The balances deposited in GDB are uninsured and uncollateralized. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation. However, under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance provided by the FDIC. All securities pledged as collateral are held by an agent of the Secretary of the Treasury of the Commonwealth in the name of the Municipality.

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3. CASH AND INVESTMENTS (cont.)

Municipality follows the practice of pooling cash. At June 30, 2015, the pool cash account in interest bearing commercial banks accounts had a balance of \$9.1 million of which \$4.5 million are in the General Fund, and \$4.6 million in Other Governmental Funds, all was deposit in Popular Bank of Puerto Rico.

The Municipality maintain a certified of deposit of \$772,256 with a commercial bank which served as a collateral for the Doral Notes Payable described in note 11.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, Cash Deposit with Financial Institutions, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments at June 30, 2015:

A. Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash equivalents of \$5.0 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of \$250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage.

B. Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party.

Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2015, the Municipality has balances deposited in commercial banks amounting to \$6.0 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to \$20.2 million 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. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

C. 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

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C. Interest Rate Risk

including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates.

D. Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant.

The Municipality's bank balance of deposits and investments with financial institutions are categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2015.

Risk categories are described as follows:

- Category 1:** Insured or collateralized with securities held by the Secretary of the Treasury' agents in the Municipality's name.
- Category 2:** Collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.
- Category 3:** Uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The carrying amount (book balance) and the bank balance of deposits and investments with financial institutions of the Municipality at June 30, 2015 consist of the following:

	Carrying Amount	Bank Balance
Deposits in commercial banks	\$ 6,069,649	\$ 6,226,015
Deposits in governmental banks	20,282,582	20,195,391
Total	<u>\$ 26,352,231</u>	<u>\$ 26,421,406</u>
Bank balances of deposits and investments:		
Category 1		\$ 20,195,391
Category 2		772,256
Category 3		5,453,759
Total bank balances		<u>\$ 26,421,406</u>

COMMONWEALTH OF PUERTO RICO
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4. MUNICIPAL TAXES

A. MUNICIPAL LICENSE TAXES

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return. The declaration filing date is ten days after the State Income Tax is filed (the 15th day of April each year). Entities with sales volume of \$ 1 million or more must include rates established by the Municipality. At June 30, 2015, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.50 percent for any other taxpayers. Any taxpayers, who have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth, ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax form based on the actual volume of business generated in the preceding calendar year. The tax can be paid by the taxpayer in two equal installments: (1) the first payment due in July 15, and (2) January 15 subsequent to the filing of the declaration. The first installment of the tax covers the taxable period (six months) ended December 31 subsequent to the filing date of the declaration, while the second installment of the tax covers the taxable period (six months) ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration, a 5 percent discount is granted automatically on the tax amount due.

Any municipal license taxes collected in advance (that is, prior to June 30 but pertaining to the next fiscal year) are recorded as deferred revenues. As of June 30, 2015, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) was 18,170 (base of subsequent or days collections).

B. MUNICIPAL SALES AND USE TAX

On September 23, 2006 the Municipal legislature of the Municipality of Vega Alta approved the Ordinance No. 15 (Series 2006-2007) based of State Public law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5% over the sale of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register on the Municipality to obtain a retailer's Registration Certificate. The retailers are required to file monthly sales tax returns by the 10th day following the month in which the tax was collected.

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4. MUNICIPAL TAXES (cont)

On July 29, 2007, the State Public Law No. 80 established that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund will be based on 0.2 % of the 0.5 % collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1 % will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities. During year 2015-2016 the Municipality collected \$1,428,097 from sales taxes.

5. PROPERTY TAXES

The Municipality is authorized by law to impose and collect personal and real property taxes. Personal property taxes can be imposed to any natural or legal person engaged in trade or business that at January 1 of each year is owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date.

At June 30, 2015, the total personal property tax rate in force was 6.38 percent (of which taxpayers pay 6.18 percent and .20 percent is reimbursed by the Department of Treasury of the Commonwealth. Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2015, the total real property tax rate in force was 8.38 percent (of which 8.18 percent is paid by taxpayers).

Residential real property occupied by its owner is exempt by law from property taxes on the first \$15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury of the Commonwealth assumes payment of the basic tax (4.00 and 6.00 percent for personal and real property, respectively) to the Municipality, except for property assessed of less than \$3,500 (at 1957 market prices), for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when collections are received from the CRIM.

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June 30, 2015

5. **PROPERTY TAXES (cont)**

CRIM is required to remit 1.03 percent of the personal and real property tax collected to the Municipality to be used for the partial funding of the debt service requirements on general obligations and notes payable of the Municipality. In addition, 1.35 percent of the total personal and real property taxes collected by CRIM is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

- i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of which a maximum of \$26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.
- ii. An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

Total property tax receivable, net of allowance for uncollectible accounts amounted to \$0 at June 30, 2015.

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COMMONWEALTH OF PUERTO RICO
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June 30, 2015

6. INTERFUND BALANCES

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board*. This statement requires the disclosure of the flow of resources between funds and to assess the collectibles of inter-fund balances. Inter-fund balances at June 30, 2015 consisted of the following:

	Major Funds			Other Governmental Funds	
	General Fund	Debt Service Fund	\$6,120,000 Loan Fund		
Operating transfer to:					
Major funds					
Debt Service Fund	\$ (773,699)	\$ 773,669			
Debt Service Fund	4,233	(4,233)			
Other funds (In and Out \$69,897)	-				
Total	<u>\$ (769,466)</u>	<u>\$ 769,436</u>	<u>\$ -</u>	<u>\$ -</u>	
	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Service Fund	\$6,120,000 Loan Fund		
Due to and Due From:					
Due to:					
General fund	\$ -			\$ -	\$ -
Other governmental funds	147,008			17,650	164,658
Total	<u>147,008</u>	<u>-</u>	<u>-</u>	<u>17,650</u>	<u>164,658</u>
Due from:					
General fund	\$ -	\$ -	16,273	\$ 130,735	\$ 147,008
Other governmental funds				17,560	17,560
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,273</u>	<u>\$ 148,295</u>	<u>\$ 164,568</u>

At June 30, 2015 all amounts due amount funds are considered collectible by the Municipality's management.

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COMMONWEALTH OF PUERTO RICO
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Notes to Basic Financial Statements
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7. INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

Due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

	<u>Major Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Fund</u>	<u>Statement of net assets</u>
Intergovernmental receivable:				
PR Electric Power Authority	2,321,155		\$ 2,321,155	\$ 2,321,155
Other Agencies	-	\$ 317,478	317,478	365,603
Total	<u>2,321,155</u>	<u>317,478</u>	<u>2,638,633</u>	<u>2,686,758</u>
 Intergovernmental payable:				
General Governmental Services	101		101	101
PR Department of the Treasury	-		0	0
Internal Revenue Service	-		0	0
Employees Retirement System of the Government of Puerto Rico	-		0	0
PR Water and Sewer Authority	5,215	127,267	132,482	132,482
PR Electric Power Authority	2,321,155		2,321,155	2,321,155
Other Agencies	-		0	0
Total	<u>\$ 2,326,471</u>	<u>\$ 127,267</u>	<u>\$ 2,453,738</u>	<u>\$ 2,453,738</u>

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COMMONWEALTH OF PUERTO RICO
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June 30, 2015

8. CAPITAL ASSETS

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

	Balance				Balance
	at June 30, 2014	Additions	Disposal	Reclassifications	at June 30, 2015
COST BASIS:					
Cost basis of capital assets, not subject to depreciation and amortization:					
Infrastructure land	\$ 17,355,910	\$ 1,700,000		\$ -	\$ 19,055,910
Construction in progress	1,998,179	2,573,472	-	(1,363,053)	3,208,598
Total cost basis of capital assets, not subject to depreciation and amortization	<u>19,354,089</u>	<u>4,273,472</u>	<u>-</u>	<u>(1,363,053)</u>	<u>22,264,508</u>
Cost basis of capital assets, subject to depreciation and amortization:					
Buildings, structures and building improvements	34,562,582	-	-	1,363,053	35,925,635
Infrastructure	39,839,019	80,470	-	-	39,919,489
Vehicles under capital lease	681,324	-	-	-	681,324
Licensed vehicles	9,648,691	-	-	-	9,648,691
Machinery and equipment	4,757,501	70,084	-	-	4,827,585
Total cost basis of capital assets subject to depreciation and amortization	<u>89,489,117</u>	<u>150,554</u>	<u>-</u>	<u>1,363,053</u>	<u>91,002,724</u>
Total cost basis of capital assets	<u>108,843,206</u>	<u>4,424,026</u>	<u>-</u>	<u>-</u>	<u>113,267,232</u>
LESS ACCUMULATED DEPRECIATION AND AMORTIZATION:					
Buildings, structures and building improvements	11,715,391	825,117	-	-	12,540,508
Infrastructure	30,904,004	2,739,177	-	-	33,643,181
Land Improvements	681,324	-	-	-	681,324
Licensed vehicles	9,251,350	113,103	-	-	9,364,453
Machinery and equipment	4,233,261	616,931	-	-	4,850,192
Total accumulated depreciation and amortization	<u>56,785,330</u>	<u>4,294,328</u>	<u>-</u>	<u>-</u>	<u>61,079,658</u>
CAPITAL ASSETS, NET	<u>\$ 52,057,876</u>	<u>\$ 129,698</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,187,574</u>

Depreciation and amortization expense was charged by functions in the accompanying government wide statement of activities as follows:

General government	\$ 128,988
Public safety	945,919
High way and urban development	1,203,895
Public housing and welfare	42,996
Culture, recreation and education	515,954
Urban and economic development	1,456,576
Total depreciation and amortization expense	<u>\$ 4,294,328</u>

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June 30, 2015

9. DEFERRED INFLOW OF CASH

Deferred revenues recorded in the accompanying GWFS and the GFFS are as follows:

A. General Fund:

Deferred revenue of \$1,442,340 in the general fund is related to municipal license tax collected in fiscal year 2014-15 that will be earned in fiscal year 2015-16.

10. EMPLOYEES RETIREMENT SYSTEM

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth. The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issued publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS.

The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are required to become members of System 2000.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

10. EMPLOYEES RETIREMENT SYSTEM (cont.)

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan. Neither the Commonwealth nor the Municipality will guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

Funding Policy:

Contribution requirements are established by law and are as follows:

Municipality	11.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275 % of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

During the fiscal year ended June 30, 2015 the employer's contributions paid by the Municipality to both retirement systems amounted to \$508,522. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001.

Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more years of service and age 55, or 30 or more years of services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reach the normal retirement age.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

10. EMPLOYEES RETIREMENT SYSTEM (cont.)

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, the Commonwealth will assume any actuarial deficiency that may exist or arise related to the Municipality's participating employees since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

The Treasury Department of Commonwealth of Puerto Rico issued the Letter Circular No. 1300-12-16 on November 30, 2015, "Accounting and Financial Report for Pensions (GASB No. 68)". This letter establishes when the information and report are available for the agencies and the municipalities. The information and the report for the Municipality of Vega Alta are available during the fiscal year 2015-2016.

11. LONG-TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- Direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the 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 or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2015, the Municipality is in compliance with the debt limitation requirements.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

11. LONG-TERM DEBT (cont.)

The general long-term debt activity for the year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2015	Due Within One Year
Notes payable to the Government Development Bank	\$ 19,680,000		\$ (1,598,000)	\$ 18,082,000	\$ 1,471,000
Municipal Sales Tax Loans	6,120,000		(295,000)	5,825,000	315,000
Notes payable to DORAL Bank	272,117		(160,411)	111,706	111,706
CRIM - Note	187,762		(10,432)	177,330	10,430
Compensated absences	2,332,397		(129,591)	2,202,806	950,758
Total	<u>\$ 28,592,276</u>	<u>\$ -</u>	<u>\$ (2,193,434)</u>	<u>\$ 26,398,842</u>	<u>\$ 2,858,894</u>

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

11. LONG-TERM DEBT(cont.)

Long-term debt at June 30, 2015 is composed of the following debts:

General Obligation Bond:	OUTSTANDING AMOUNT
1995 serial bonds , original issues amount of \$990,000 due in annual principal installments ranging from \$15,000 to \$90,000; plus interest due in semiannually installments at rates 6% through July 1, 2019.	\$ 385,000
1995 serial bonds , original issues amount of \$3,425,000, due in annual principal installments ranging from \$40,000 to \$295,00; plus interest due in semiannually installments at rates 6.3% through July 1, 2020.	1,480,000
1997 serial bonds, original issues amount of \$610,000, due in annual principal installments ranging from \$10,000 to \$60,000; plus interest due in semiannually installments at rates 5.86% through July 1, 2021	305,000
1999 serial bonds, original issues amount of \$940,000, due in annual principal installments ranging from \$30,000 to \$95,000; plus interest due in semiannual installments at variable rates 4.10% through July 1, 2016.	185,000
2000 serial bonds issues amount of \$135,000, due in annual principal installments ranging from \$5,000 to \$10,000, plus interest due in semiannual installments at variable rates 4.30% through July 1, 2024.	60,000
2000 serial bonds, original issues amount of \$230,000, due in annual principal installments ranging from \$5,000 to \$20,000; plus interest due in annual installments at variable rates 1.29% through July 1, 2025.	155,000
2002 serial bonds, original issues amount of \$500,000, due in annual principal installments ranging from \$10,000 to \$50,000; plus interest due in annual installment at variable rates 4.30% through July 1, 2021.	265,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

11. LONG-TERM DEBT(cont.)	OUTSTANDING AMOUNT
2003 serial bonds, original issues amount of \$1,235,000, due in annual principal installments ranging from \$20,000 to \$95,000; plus interest due in semiannual installments at variable rates 4.50% through july 1,2028.	915,000
2003 Operational bond - Serial bonds issues amount of \$2,585,000 due in annual installments ranging from \$40,000 to \$200,000 plus interest due in semiannual installments at variable rates 1.54% through july 1,2028.	1,825,000
1995 Public improvement bonds issues ammount of \$4,735,000 due in annual installments of principal ranging from \$50,000 to \$295,000; plus interest due in semiannual installments variable rate from 6.50% through august 1, 2020.	1,472,000
2007 serial bonds, original issues amount of \$1,300,000 due in annual principal installments of principal ranging from \$30,000 to \$120,000; plus interest due in semiannual installments at varaible rates 1.54% through july 1, 2027.	1,040,000
2008 serial bonds, original issues amount of \$995,000, due in annual principal installments ranging from \$15,000 to \$90,000; plus interest due in semiannually installments at variable rates 1.54% through july 1, 2032.	865,000
2010 serial bonds with original issues amount of \$3,930,000, due in annual installments ranging from \$150,000 to \$415,000; plus interest due in semiannually installments at rates from 6.00% through july 12024.	3,060,000
2010 serial bonds with original issues amount of \$2,225,000 due in annual installments ranging from \$85,000 to \$235,000; plus interest calculated from 6% through july 1, 2024.	1,725,000
2011 serial bonds with original issues amount of \$1,755,000 due in annual installments ranging from \$65,000 to \$185,000; plus interest calculated from 6.00% through in july 1, 2025.	1,455,000
2014 serial bonds with original issues amount of \$2,450,000 due in annual installments ranging from \$120,000 to \$285,000; plus interest calculated from 6.00% through in july 1, 2026.	2,330,000
2014 serial bonds with original issues amount of \$630,000 due in annual installments ranging from \$70,000 to \$110,000; plus interest calculated from 6.00% through in july 1, 2020.	560,000
Total general municipal obligation bonds	\$ 18,082,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

11. LONG-TERM DEBT(cont.)

OUTSTANDING
AMOUNT

Municipal Sales Tax Loans

2014 serial bonds with original issues amount of \$6,120,000 due in annual installments ranging from \$295,000 to \$700,000; plus interest calculated from 6.00% through in July 1, 2026. 5,825,000

Note payable to Doral Bank

On February 3, 2011 the Municipality borrowed \$750,000 at 5.25% fixed interest for the acquisition of equipment and improvements for the Division at Municipality of Vega Alta. The collateral for this note is a certificate of deposit for the amount of \$772,256 and must be in the system for 5 years. The municipality is required to pay monthly payments of \$14,249.49. 111,706

Notes payable to the Puerto Rico Treasury Department (Payable to CRIM)

On March 19, 2002 the Resolution num. 36 series 2001-2002 was enacted which authorized the municipality to obtain up to \$260,780 for a term not exceeding 25 years, for the repayment of bonds issued for the sale of delinquent accounts. The repayment agreement bears interest at variable rates (beginning in 6.22% at June 30, 2004). 177,330

Compensated Absences

At June 30, 2015 the liability for compensated absence is composed as follows:

	Due within one year	Due after one year	Total
Vacations	\$ 582,179	\$ 331,748	\$ 913,927
Sick leave	368,579	920,300	1,288,879
Total	950,758	1,252,048	2,202,806

Compensated Absences 2,202,806

Total long-term debt \$ 26,398,842

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

11. LONG-TERM DEBT(cont.)

The principal and interest maturities for the general obligation bonds of the Municipality of Vega Alta at June 30, 2015 are as follows:

Year Ending June 30	Bonds (Debt Service Funds)		Operation Notes and Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 1,105,000	\$ 742,398	\$ 366,000	\$ 167,047
2017	1,180,000	892,284	395,000	213,551
2018	1,180,000	811,090	421,000	184,124
2019	1,255,000	725,485	454,000	153,124
2020	1,365,000	633,506	488,000	119,755
2021 to 2025	6,180,000	1,983,477	1,173,000	309,775
2026 to 2030	1,725,000	269,998	560,000	56,225
2031 to 2035	235,000	27,938	-	-
TOTAL	\$ 14,225,000	\$ 6,086,174	\$ 3,857,000	\$ 1,203,601

Year Ending June 30	Municipal Sales Taxes Loan		CRIM Notes	
	Principal	Interest	Principal	Interest
2016	\$ 315,000	\$ 339,800	\$ 10,430	\$ 4,440
2017	340,000	359,175	10,430	4,178
2018	365,000	374,063	10,430	3,918
2019	395,000	345,563	10,430	3,656
2020	420,000	315,000	10,430	3,396
2021 to 2025	2,640,000	1,029,375	52,150	13,058
2026 to 2030	1,350,000	103,125	52,150	6,528
2031 to 2035		-	20,880	784
TOTAL	\$ 5,825,000	\$ 2,866,100	\$ 177,330	\$ 39,958

Doral Bank Loan principal and interest due on 2016, \$111,706 and \$2,210 respectively.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

12. COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims.

Under Act No. 104 of June 25, 1955, as amended, persons are authorized to sue the Municipality only for causes of actions set forth in said Act to a maximum amount of \$75,000 or \$150,000 if it involves actions for damages to more than one person or where a single injured party is entitled to several causes of action. Under certain circumstances, as provided in Act No. 9 of November 26, 1975, as amended, the Municipality may provide its officers and employees with legal representation, as well as assume the payment of any judgment that may be entered against them. There is no limitation on the payment of such judgment.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, every one of the probable claims against the Municipality the final outcome will be covered by the insurance because are under de \$75,000.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

C. CONSTRUCTION - COMMITMENT

The Municipality had several outstanding or planned construction projects as of June 30, 2015. These projects are evidenced by contractual commitment with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amount to \$2,610,771.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Basic Financial Statements
June 30, 2015

13. SUBSEQUENT EVENT

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through November 20, 2015, which is the date these financial statements were available to be issued.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Budgetary Comparison Schedule
 June 30, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 5,398,518	\$ 5,398,518	\$ 5,398,518	\$ -
Municipal license taxes	2,223,719	2,223,719	2,274,040	50,321
Licenses and Permits	660,000	660,000	318,868	(341,132)
Governmental Revenue	5,638,841	5,638,841	5,639,755	914
Interest, fines and penalties	875,000	875,000	735,872	(139,128)
Rent	280,000	280,000	277,365	(2,635)
Municipal sales taxes	1,506,262	1,506,262	1,554,703	48,441
Other	635,000	635,000	836,158	201,158
	<u>\$ 17,217,340</u>	<u>\$ 17,217,340</u>	<u>\$ 17,035,278</u>	<u>\$ (182,062)</u>
Expenditures:				
General government	\$ 12,086,637	\$ 12,582,858	\$ 11,725,586	\$ 857,272
Highway and Urban	885,209	854,440	690,051	164,390
Public Safety	1,374,199	1,103,812	1,054,756	49,057
Sanitation & Environmental Control	2,210,307	2,097,095	2,056,778	40,318
Culture, Recreation and Education	460,579	435,324	419,676	15,648
Public , Housing Welfare	200,409	143,810	132,939	10,870
	<u>\$ 17,217,340</u>	<u>\$ 17,217,340</u>	<u>16,079,786</u>	<u>1,137,554</u>
Revenue (expenditure)	\$ -	\$ -	\$ 955,492	\$ 955,492

Explanation of Differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 17,035,278
Differences - budget basis to GAAP:	
Transfers from other funds are inflows of budgetary i but are not revenues for financial reporting purposes	(4,233)
Intergovernmental receivable	
Timing difference in revenue recognition in budget basis vs actual in Statements of Revenues	<u>395,510</u>
Total revenues as reported on the statement of revenues, e and changes in fund balances - governmental funds	<u>\$ 17,426,555</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appr from the budgetary comparison schedule	\$ 16,079,786
Differences - budget basis to GAAP:	
Prior year receivable adjustment	
Transfer out to special project fund (not expenditure)	(773,699)
Intergovernmental payable	(194,087)
Expenditures of prior year considered as expenditure	<u>696,728</u>
Total expenditures as reported on the statement of rev and changes in fund balances - governmental funds	<u>\$ 15,808,728</u>

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Reconciliation of Statement of Revenues, Expenditures and
Changes in Fund Balances Governmental Funds to the Statement of Activities
Year ended June 30, 2015

NOTE 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 GAAP, 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 GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Expenditures of Federal Awards
 For the year ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Section 8 Housing Voucher (HV)	14.871 MP	\$ 806,075
Supportive Housing Program (SHP)	14.235	200,835
Pass-through:		
PR Office of Municipal Affairs		
Community Development Block Grants (CDBG) (State-Administered Small Cities Program)	14.228 MP	523,543
PR Health Department		
Emergency Shelter Grant Program (ESG)	14.231	14,275
Municipality of San Juan		
Housing Opportunities for persons with aids (HOPWA)	14.241	<u>87,543</u>
Subtotal US Department of Housing and Urban Development		<u>1,632,270</u>
US DEPARTMENT OF TRANSPORTATION		
Direct Program		
Federal Transit-Formula Grants	20.507	<u>5,317</u>
Subtotal US Department of Transportation		<u>5,317</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE		<u><u>\$ 1,637,587</u></u>

MP= Major Program

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

1. **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents balance expended of all Federal Financial Assistance Programs of the Municipality of Vega Alta, Puerto Rico. The reporting entity is defined in Note 1 to the general-purpose financial statements.

2. **RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Federal financial assistance revenues and expenditures are reported in the Municipality's general-purpose financial statements as other governmental funds and capital project fund.

3. **FEDERAL CFDA NUMBER**

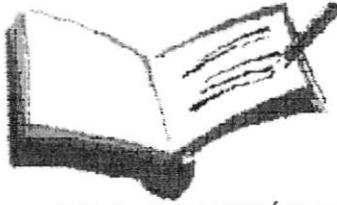
The CFDA numbers included in this schedule were determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

4. **BASIS OF PRESENTATION**

The expenditures of the schedule are included in the Municipality's basic financial statements. The reconciliation of expenditures in the basis financial statements to the Schedule of Expenditures of Federal Awards is as follows:

Federal expenditures per basic financial statements
Included within:

Non federal expenditures included	
Within other governmental funds`	\$ 1,637,587
Expenditures per Schedule of Expenditures of Federal Awards	<u>4,064,763</u>
Total expenditures with other governmental funds	<u>\$ 5,702,350</u>



MEMBERS:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS (AICPA)
PUERTO RICO SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS

CPA AGUSTÍN RODRÍGUEZ NIEVES
CERTIFIED PUBLIC ACCOUNTANT

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

Honorable Mayor and Members
of the Municipal Legislature
Municipality of Vega Alta
Vega Alta, Puerto Rico

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Vega Alta, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Municipality of Vega Alta's basic financial statements, and have issued my report thereon dated November 20, 2015.

Internal Control over Financial Reporting

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

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Vega Alta's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

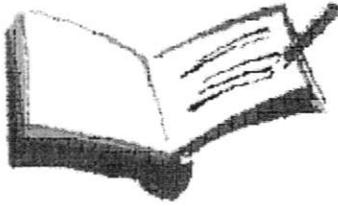
The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control or on compliance. This report is an integral part of an audit performed 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.

Toa Alta, Puerto Rico
November 20, 2015



CPA Agustín Rodríguez Nieves
Expires December 1, 2016
License # 4314

Stamp No. 02714951 of Puerto Rico Society of Certified Public
Accountants was affixed to the original report.



MEMBERS:
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ACCOUNTANTS (AICPA)
PUERTO RICO SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS

CPA AGUSTÍN RODRÍGUEZ NIEVES
CERTIFIED PUBLIC ACCOUNTANT

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

INDEPENDENT AUDITOR'S REPORT

Honorable Major and Member
Of the Municipal Legislature
Municipality of Vega Alta
Vega Alta, Puerto Rico

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Municipality of Vega Alta's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Municipality of Vega Alta's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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.

Toa Alta, Puerto Rico
November 20, 2015



CPA Agustín Rodríguez Nieves
Expires December 1, 2016
License # 4314

Stamp No. 02714952 of Puerto Rico Society of Certified Public
Accountants was affixed to the original report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2015

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: *[unmodified]*

Internal control over financial reporting:

- Material weakness (es) identified? yes no
- Significant deficiency(ies) identified
 Those are not considered to be
 Material of weakness (es)? yes none reported

Noncompliance material to financial
 Statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? yes no
- Significant deficiency(ies) identified
 Those are not considered to be
 Material of weakness(es)? yes no

Type of auditors' report issued on compliance for major programs: *[unmodified]*

Any audit findings disclosed that are
 required to be reported in accordance
 with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Voucher
14.228	CDBG

Dollar threshold used to distinguish
 Between type A and Type B program: \$ 300,000

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

SECTION I - SUMMARY OF AUDIT RESULTS (CONTINUED)

Federal Awards

Auditee qualified as low-risk auditee? yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – Federal Award Findings and Questioned Cost

None

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
Schedule of Prior Year Findings and Questioned Costs
For the year ended June 30, 2015

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Municipality of Vega Alta has not prior year findings.