

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

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

30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF VEGA BAJA

**BASIC FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT
(WITH ADDITIONAL REPORTS REQUIRED BY THE
SINGLE AUDIT ACT)**

For the Year Ended June 30, 2015



Municipality of Vega Baja
PO Box 371330, Vega Baja, Puerto Rico 00737
Hon. Marcos Cruz Molina

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INDEPENDENT AUDITORS' REPORT

**To the Honorable Mayor and
the Municipal Legislature
Municipality of Vega Baja
Vega Baja, Puerto Rico**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Vega Baja**, 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 State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Unmodified
Debt Service Fund	Unmodified
Bond Issuances for Capital Projects Fund	Unmodified
Head Start Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities

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

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

Qualified Opinion

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



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Unmodified Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **5 through 14** and Budgetary Comparison information on page **72**, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Vega Baja's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages **75 and 76** is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **78 and 79** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2015, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality's internal control over financial reporting and compliance.


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2016

Stamp No. 2728499 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

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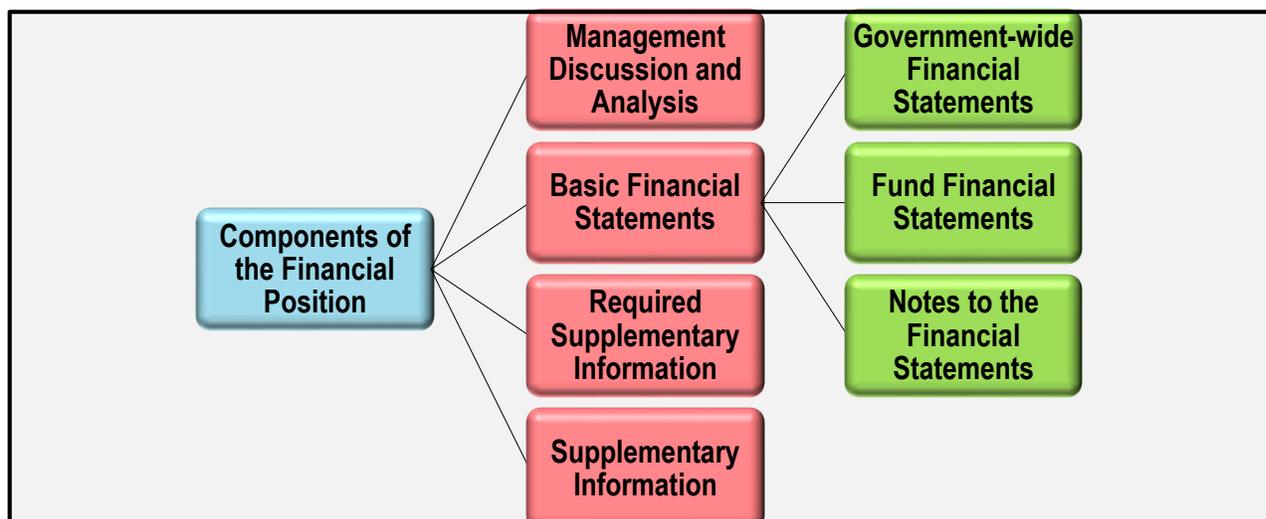
The discussion and analysis of the Municipality of Vega Baja's financial performance provides an overall review of the Municipality's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the Municipality's financial performance as a whole; this section should be read in conjunction with the basic financial statements to obtain a better understanding of the financial position and the results of operations of the Municipality. Our analysis follows this section.

FINANCIAL HIGHLIGHTS

- The assets of the Municipality, on a government-wide basis, exceeded its liabilities at the close of fiscal year 2015 by \$9,330,515 (net position), a decrease of 62% in comparison with 2014, as restated. Of this amount, the Municipality presented an unrestricted net deficit of \$45,158,783.
- Revenues decreased 5% and expenses increased 78% when compared with fiscal year 2014, as restated. Net position decreased \$15,109,540 in 2015.
- A negative net change in the fund balances of the Municipality's governmental funds of \$1,851,959 in the fiscal year 2015 resulted in reported ending fund balances of \$13,866,590.
- For the fiscal year 2015, the General Fund reported an excess of revenues and other financing sources over expenditures and other financing uses of \$1,154,609. The unassigned fund balance amounts to \$2,658,067 for an increase of 77% as compared to 2014, as restated.
- The investment in capital assets as of June 30, 2015 was \$84,464,554 (net of depreciation).
- Long-term debt (total primary government) increased to \$10,026,038 or approximately 12% with respect to the prior year, as restated.
- On a budgetary basis, actual revenues exceeded actual expenditures by \$143,023.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Municipality's financial report comprises four components: (1) management's discussion and analysis (presented here), (2) basic financial statements, (3) required supplementary information and (4) other supplementary information.



The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide statements:

Basic Financial Statements

- **Government-Wide Financial Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The first government-wide statement, the *statement of net position*, presents all of the reporting entity's non-fiduciary assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in the Municipality's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors such as the condition of the Municipality's capital assets may need to be considered to assess the overall health of the Municipality. The second statement, the *statement of activities*, presents information showing how the net position changed during the year. All of the current year's revenues and expenses are taken into account in the statement of activities regardless of when cash is received or paid.

The government-wide statements report as governmental activities the Municipality's basic services such as public works and sanitation, public safety, culture and recreation, housing, welfare, community, urban and economic development, education and general administration. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues. Included in the governmental activities are the governmental funds.

- **Fund Financial Statements**

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well as by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified-accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of spendable resources available at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the

government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that comply with a minimum criterion that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users. Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

- ***Notes to financial statements***

The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

Required supplementary information

The statements and notes are followed by the required supplementary information that contains the budgetary comparison schedule for the General Fund.

Supplementary information

The supplementary information also includes a financial data schedule containing financial information of the Section 8 Housing Choice Voucher Program administered by the Municipality.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

The following table presents a summary of the Statements of Net Position as of June 30, 2015 and 2014:

TABLE 1

Summary Statement of Net Position		
As of June 30,		
	Governmental Activities	
	2015	2014, as restated
Assets		
Current and other assets	\$ 26,536,547	\$ 30,355,087
Capital assets	84,464,554	86,884,366
Total assets	\$ 111,001,101	\$ 117,239,453
Liabilities		
Current and other liabilities	9,561,509	10,716,359
Long-term liabilities	92,109,077	82,083,039
Total liabilities	101,670,586	92,799,398
Net Position		
Net investment in capital assets	45,329,655	47,238,590
Restricted	9,159,643	9,560,973
Unrestricted (deficit)	(45,158,783)	(32,359,508)
Total net position	\$ 9,330,515	\$ 24,440,055

Net position (difference of non-fiduciary assets, deferred outflows versus liabilities and deferred inflows) serve as a useful indicator of a government's financial position. Over time, increases or decreases in the Municipality's net position is one indicator of whether its financial health is improving or deteriorating. At June 30, 2015, assets exceeded its liabilities by \$9,330,515. Of this amount, \$(45,158,783) represents unrestricted net deficit. This deficit primarily arises from long-term obligations such as compensated absences, debts to CRIM, landfill, among other debts, for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a "pay as you go" basis without providing funding for their future liquidation. In addition, operational loans and certain general obligation bonds do not have a related capital asset to be reported as net investment in capital assets. Therefore, they are reported as part of the unrestricted net position section. Restricted net position represents resources that are subject to external restrictions on how they may be used. Net position reported a decrease of 62% with respect to fiscal period 2014, as restated.

The largest portion of the Municipality's net position reflects its investment in capital assets (land, buildings, equipment, and infrastructure) less accumulated depreciation and less any related outstanding debt used to acquire those assets. The Municipality uses these assets to provide services to its citizens and, consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources because capital assets are not generally liquidated for the purpose of retiring debt.

Changes in net position

The following table summarizes the changes in net position for the fiscal years ended 2015 and 2014:

TABLE 2
Summary of Changes in Net Position
As of June 30,

	Governmental Activities	
	2015	2014, as restated
Program revenues:		
Fees, fines and charges for services	\$ 3,343,382	\$ 5,580,644
Operating grants and contributions	10,010,877	10,391,983
Capital grants and contributions	3,185,555	2,187,317
General revenues:		
Property taxes	9,818,403	11,009,032
Municipal license taxes	7,000,092	6,635,792
Sales and use taxes	2,927,380	3,021,923
Grants and contributions not restricted to specific programs	4,615,536	4,733,141
Interest	511,901	372,949
Miscellaneous	543,587	340,708
Total revenues	41,956,713	44,273,489
Expenses:		
General government	15,027,562	7,172,606
Public works and sanitation	24,141,990	8,801,731
Public safety	1,595,547	1,482,050
Culture and recreation	1,770,525	1,537,224
Health	1,263,002	1,217,833
Housing, welfare and community development	4,577,508	2,812,825
Urban and economic development	303,003	384,055
Education	6,120,105	6,294,754
Interest on long-term debt	2,267,008	2,387,946
Total expenses	57,066,250	32,091,024
Change in net position	(15,109,537)	12,182,465
Net position-beginning of year, as restated	24,440,055	12,257,590
Net position-end of year	\$ 9,330,518	\$ 24,440,055

The three major sources of revenues of the Municipality in fiscal year 2015 are: operating grants and contributions with 24% of total revenues, property taxes with 23% and municipal license taxes with 17%. Revenues decreased 5% due mainly to a decrease of 40% and 11% in charges for services and property taxes, respectively, which were offset by an increase of 46% in capital grants. The following chart illustrates the revenue comparison between 2015 and 2014:

Figure 1

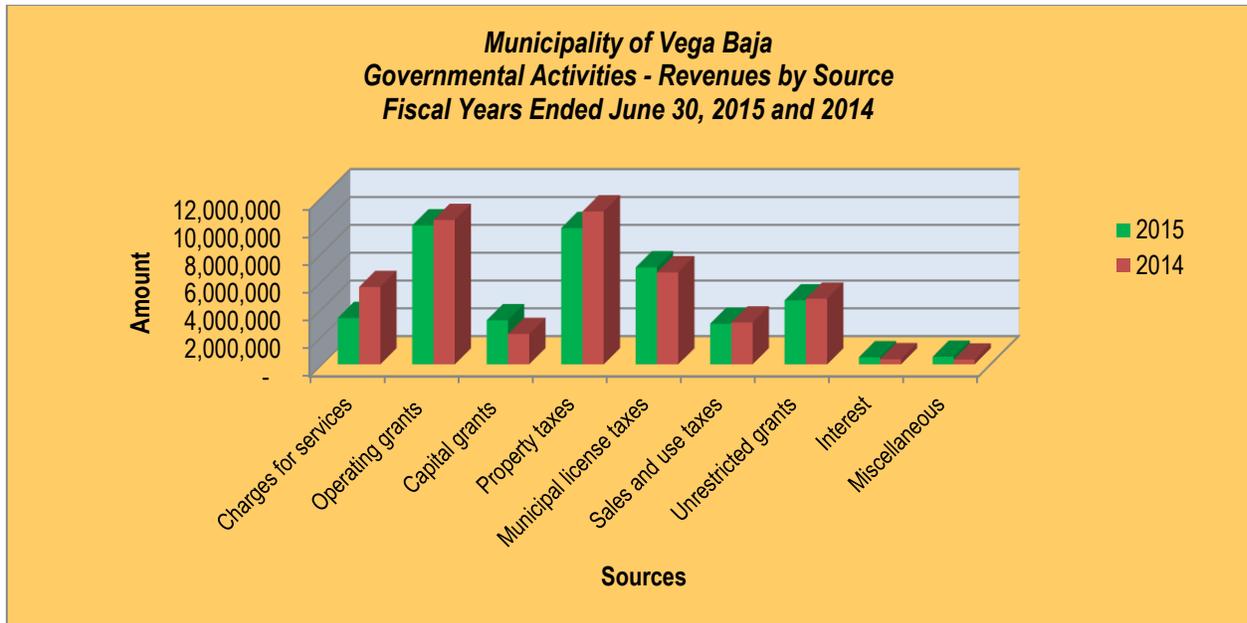
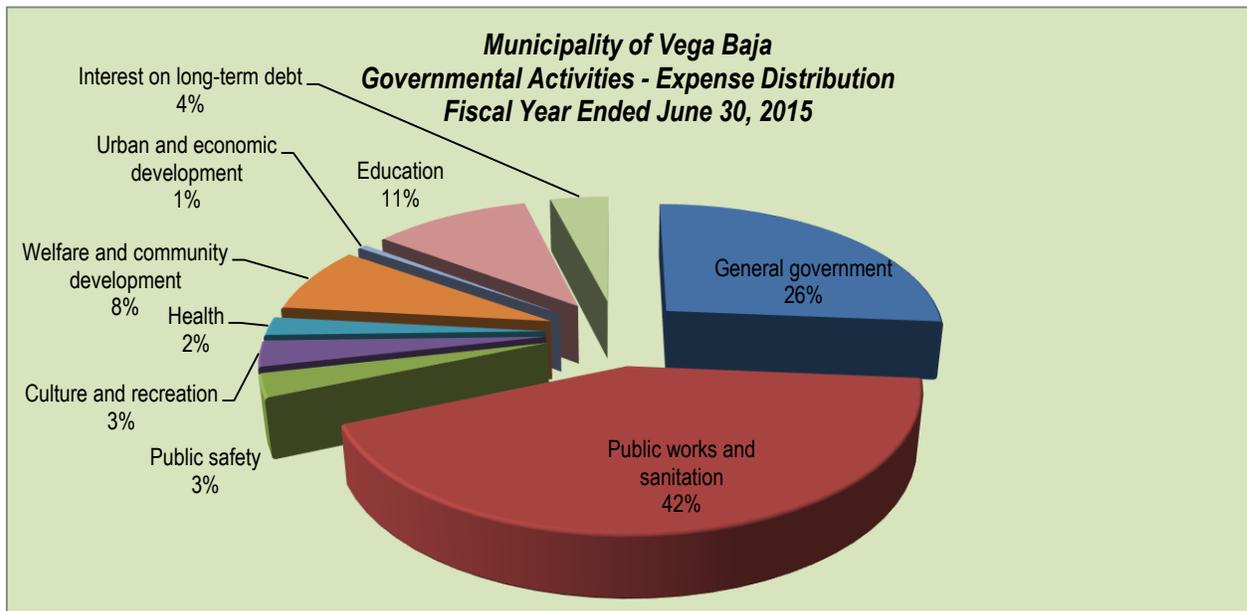


Figure 2



The Municipality's expenses cover a range of services. **Figure 2** illustrates the distribution of expenses in fiscal year 2015. As disclosed, the largest governmental activities expenses are general government with 26% and public works and sanitation with 42%. Total expenses increased 78% when compared with fiscal year 2014, as restated

The Statement of Activities reports revenues and expenses in a format that focus on the net cost of each function of the Municipality. Both the gross and net cost of the function, which is otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross direct expenses, including depreciation, by related program revenues, operating and capital grants, and contributions. The following table discloses the 2015 expenses net of program revenue and the general revenues available to finance remaining costs:

TABLE 3

Expenses Net of Program Revenues - Governmental Activities	
Fiscal Year ended June 30, 2015	
Net expenses	2015
General government	\$ (11,768,647)
Public works and sanitation	(20,941,246)
Public safety	(1,382,116)
Culture and recreation	(1,718,110)
Health	(1,217,833)
Housing, welfare and community development	(1,144,504)
Urban and economic development	(61,396)
Education	(25,576)
Interest on long term debt	(2,267,008)
Total expenses, net of program revenues	(40,526,436)
General revenues	
Taxes	19,745,875
Grants and contributions not restricted to specific programs	4,615,536
Interest and other	1,055,488
Total general revenues	25,416,899
Change in net position	\$ (15,109,537)

Expenses of governmental activities not covered by program revenues were finally covered by other general revenues.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

Governmental funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Municipality's net resources available at the end of a fiscal year as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party.

For the fiscal year ended June 30, 2015, the governmental funds reported ending fund balances of \$13,866,590, a net decrease of \$1,851,959 or 12% due to an overall decrease of 2% in total revenues and a 7% increase in total expenditures. Of the total fund balances, \$2,242,309 or 16% constitutes unrestricted fund balance, of which \$(415,758) are unassigned funds with a net deficit. The remaining fund balance is restricted to indicate that is not available for new spending.

The general fund is the operating fund of the Municipality. The fund balance of the general fund represents approximately 19% of total ending fund balances. Of the total fund balance, 1% is restricted for public works. The remaining unrestricted fund balance of \$2,658,067 is unassigned fund balance, which represents 99% of the total fund balance of the general fund. Unassigned fund balance increased 75% with respect to the prior year.

During the fiscal year, the fund balances of the general fund increased by \$1,154,609. The main sources of revenues of the general fund in fiscal year 2015 are: taxes (property taxes, sales and use taxes and municipal license taxes) with 58%, and intergovernmental subsidies from the Commonwealth and charges for services, with 20% and 18%, respectively. Revenues decreased 4% in comparison to 2014 due to decreases in taxes and fees fines and charges for services. The largest expenditures of the general fund are general government with 55% and public works and sanitation with 22%. Expenditures increased 19.8%.

GENERAL FUND BUDGETARY HIGHLIGHTS

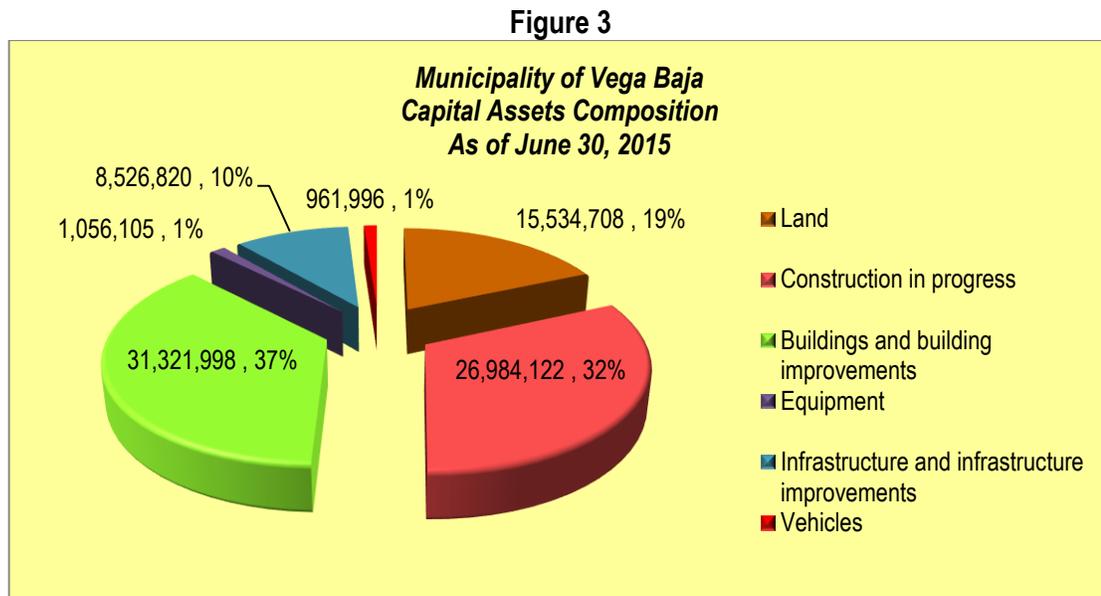
The general fund original budget for the fiscal year 2014-2015 presented a 0.48% increase with respect to the prior year budget. Actual revenues exceeded revised budgeted revenues by \$356,335 (net). However, the Municipality reported a negative variance of \$213,312 between revised budgeted appropriations and actual expenditures. Actual revenues exceeded actual expenditures by \$143,023.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of the fiscal year, the Municipality has invested \$84,464,554 (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land, furniture, works of art and equipment. During the fiscal year 2014-15, the capital assets amounts were updated from the last audited amounts presented as of June 30, 2009. This adjustment represented a prior period adjustment that

decreased net position by \$10,146,372, net. The significant variances in the expense functions of the Statement of Activities are due to the recognition in the prior and current year financial statements of the capital assets additions and depreciation expense reported for those periods. The following graphic discloses the capital assets balances composition as of June 30, 2015:



Long-term debt

The following is a summary of the Municipality's outstanding debt as of June 30, 2015 and 2014:

TABLE 4

**Outstanding Long-term Debt
Fiscal years ended June 30,**

	Governmental Activities	
	2015	2014
General and special obligation bonds and notes	\$ 42,476,000	\$ 44,800,000
General obligation bond anticipation notes	765,348	765,348
Section 108 Loan Guarantee notes payable	2,825,000	3,525,000
Mortgages payable	1,650,200	1,661,143
Notes payable to CRIM – Law 146	363,856	385,259
Payable to PREPA	777,100	1,884,515
Payable to CRIM – Property tax advances	-	92,624
Compensated absences	2,771,615	2,798,257
Christmas bonus payable	238,389	450,122
Claims and judgments	4,034,228	2,712,876
Landfill	36,207,341	23,007,895
Total	\$ 92,109,077	\$ 82,083,039

At year-end, the Municipality had outstanding \$42,476,000 in general and special bonds and notes, a decrease with respect to the prior year of \$2,324,000, mainly due to the absence of issuance of new bonds and notes. The most significant changes are the increase of \$13,199,446 in the landfill debt to the construction of a new cell for the collection of waste. Also, claims and judgments increased by \$1,321,352 (net) due to the recognition of an estimated loss of \$1,750,000 related to the Municipality's former landfill.

More detailed information about the Municipality's long-term liabilities is presented in Note 11 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality's officials considered certain factors when establishing the fiscal year's 2015-2016 budget. One of these factors is the economy. Among economic areas considered are the estimates for the growth or decline in population, personal income, housing statistics and unemployment rates. The Municipality's unemployment rate at June 2015 stands at 14.60%, and the Commonwealth rate stands at 12.60%.

For the fiscal year 2015-2016, the Municipality applied a conservative approach in the development of budget estimates. Amounts available for appropriations in the General Fund are \$19,743,870, a decrease of approximately 17% with respect to prior year estimates. Budgeted expenditures are expected to decrease according to the decrease of budgeted revenues. If these estimates are realized, the Municipality's budgetary general fund balance is expected to increase modestly by the close of the 2015-2016 fiscal year. In addition to the general fund estimated budget, the Municipality plans to submit to the Federal and Commonwealth government fund proposals for welfare and community development as well as permanent capital improvements and public works.

FINAL COMMENTS

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

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need any additional information contact the Finance Department at the Municipality of Vega Baja at P.O. Box 4555, Vega Baja, Puerto Rico 00694.

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,615,818
Accounts receivable, net:	
Municipal license taxes	7,087
Sales and use taxes	121,363
Others	57,200
Due from:	
Commonwealth Government	1,958,304
Federal Government	42,802
Restricted assets:	
Cash and cash equivalents	3,347,886
Cash with fiscal agents	12,371,496
Capital assets	
Land and construction in progress	42,518,830
Other capital assets, net	41,945,724
Total capital assets	<u>84,464,554</u>
Other assets	14,591
Total assets	<u>111,001,101</u>
Liabilities	
Accounts payable and accrued liabilities	2,679,324
Interest payable	1,758,465
Due to:	
Commonwealth Government	399,198
Federal Government	54,509
Unearned revenues:	
Municipal license taxes	4,533,937
Federal grants	136,076
Noncurrent liabilities:	
Due within one year	9,274,300
Due in more than one year	82,834,777
Total liabilities	<u>101,670,586</u>
Net position	
Net investment in capital assets	45,329,655
Restricted for:	
Capital projects	1,493,437
Debt service	5,942,387
Other purposes	1,723,819
Unrestricted	(45,158,783)
Total net position	<u><u>\$ 9,330,515</u></u>

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Change in Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 15,027,562	\$ 3,080,821	\$ 178,094	\$ -	\$ (11,768,647)
Public works and sanitation	24,141,990	5,189	10,000	3,185,555	(20,941,246)
Public safety	1,595,547	141,636	71,795	-	(1,382,116)
Culture and recreation	1,770,525	52,415	-	-	(1,718,110)
Health	1,263,002	45,169	-	-	(1,217,833)
Welfare and community development	4,577,508	-	3,433,004	-	(1,144,504)
Urban and economic development	303,003	18,152	223,455	-	(61,396)
Education	6,120,105	-	6,094,529	-	(25,576)
Interest on long-term debt	2,267,008	-	-	-	(2,267,008)
	<u>\$ 57,066,250</u>	<u>\$ 3,343,382</u>	<u>\$ 10,010,877</u>	<u>\$ 3,185,555</u>	<u>\$ (40,526,436)</u>
General revenues:					
Taxes:					
Property taxes					9,818,403
Municipal license taxes					7,000,092
Sales and use taxes					2,927,380
Grants and contributions not restricted to specific programs					4,615,536
Interest					511,901
Miscellaneous					543,587
Total general revenues					<u>25,416,899</u>
Change in net position					(15,109,537)
Net position - beginning, as restated					24,440,052
Net position - ending					<u>\$ 9,330,515</u>

	Major Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Head Start Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 8,615,818	\$ -	\$ -	\$ -	\$ -	\$ 8,615,818
Accounts receivable, net:						
Municipal license taxes	7,087	-	-	-	-	7,087
Sales and use taxes	-	121,363	-	-	-	121,363
Others	515	-	-	-	56,685	57,200
Due from:						
Commonwealth Government	990,679	363,539	-	50,020	554,066	1,958,304
Federal Government	-	-	-	-	42,802	42,802
Other funds	881,008	-	-	-	9,802	890,810
Restricted assets:						
Cash and cash equivalents	-	-	-	423,617	2,924,269	3,347,886
Cash with fiscal agents	35,838	6,480,795	5,710,536	-	144,327	12,371,496
Other assets	14,591	-	-	-	-	14,591
Total assets	<u>\$ 10,545,536</u>	<u>\$ 6,965,697</u>	<u>\$ 5,710,536</u>	<u>\$ 473,637</u>	<u>\$ 3,731,951</u>	<u>\$ 27,427,357</u>
Liabilities, Deferred Inflows of Resources and Fund balances (deficit)						
Liabilities						
Accounts payable and accrued liabilities	\$ 1,978,898	\$ -	\$ 84,365	\$ 213,872	\$ 402,189	\$ 2,679,324
Matured bonds, notes and interest payable	-	3,353,310	-	-	-	3,353,310
Due to:						
Commonwealth Government	336,432	-	-	55,175	7,592.0	399,199
Federal Government	1,884	-	-	52,625	-	54,509
Other funds	9,802	-	-	151,965	729,043	890,810
Unearned revenues:						
Municipal license tax	4,533,937	-	-	-	-	4,533,937
Federal grant revenues	-	-	-	-	136,076	136,076
Total liabilities	<u>6,860,953</u>	<u>3,353,310</u>	<u>84,365</u>	<u>473,637</u>	<u>1,274,900</u>	<u>12,047,165</u>
Deferred Inflows of Resources						
Unavailable revenues - Property taxes	145,334	-	-	-	-	145,334.00
Unavailable revenues - Sales and use taxes	-	121,363	-	-	-	121,363.00
Unavailable revenues - Commonwealth Government	845,344	-	-	-	78,662	924,006
Unavailable revenues - Federal Government	-	-	-	-	322,899	322,899
Total deferred inflows of resources	<u>990,678</u>	<u>121,363.00</u>	<u>-</u>	<u>-</u>	<u>401,561</u>	<u>1,513,602</u>
Fund Balances (deficit)						
Restricted	35,838	3,491,024	5,626,171	-	2,471,248	11,624,281
Unassigned	2,658,067	-	-	-	(415,758)	2,242,309
Total fund balances (deficit)	<u>2,693,905</u>	<u>3,491,024</u>	<u>5,626,171</u>	<u>-</u>	<u>2,055,490</u>	<u>13,866,590</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 10,545,536</u>	<u>\$ 6,965,697</u>	<u>\$ 5,710,536</u>	<u>\$ 473,637</u>	<u>\$ 3,731,951</u>	<u>\$ 27,427,357</u>

	Major Funds					Total Governmental Funds
	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Head Start Fund	Other Governmental Funds	
Revenues						
Taxes:						
Property taxes	\$ 5,198,684	\$ 4,474,385	\$ -	\$ -	\$ -	\$ 9,673,069
Municipal license taxes	7,000,092	-	-	-	-	7,000,092
Sales and use taxes	1,992,510	813,507	-	-	-	2,806,017
Intergovernmental:						
Commonwealth Government	4,756,358	-	-	-	2,354,507	7,110,865
Federal Government	-	-	-	6,094,529	4,406,618	10,501,147
Fees, fines and charges for services	4,450,795	-	-	-	-	4,450,795
Interest	504,744	5,789	1,368	-	-	511,901
Miscellaneous	436,494	-	2,000	-	198,050	636,544
Total revenues	24,339,677	5,293,681	3,368	6,094,529	6,959,175	42,690,430
Expenditures						
Current:						
General government	14,558,697	-	70,426	-	205,923	14,835,046
Public works and sanitation	5,861,675	-	-	-	2,043,237	7,904,912
Public safety	1,522,125	-	-	-	77,918	1,600,043
Culture and recreation	1,814,590	-	-	-	4,907	1,819,497
Health	1,263,002	-	-	-	-	1,263,002
Welfare and community development	1,048,885	-	-	-	3,648,895	4,697,780
Urban and economic development	181,691	-	-	-	121,312	303,003
Education	25,576	-	-	6,094,529	-	6,120,105
Capital outlays	-	-	786,006	-	-	786,006
Debt service:						
Principal	-	2,330,000	-	-	700,000	3,030,000
Interest	-	2,045,277	-	-	137,718	2,182,995
Total expenditures	26,276,241	4,375,277	856,432	6,094,529	6,939,910	44,542,389
Excess (deficiency) of revenues over expenditures	(1,936,564)	918,404	(853,064)	-	19,265	(1,851,959)
Other financing sources (uses)						
Transfers in	3,127,932	-	-	-	36,759	3,164,691
Transfers (out)	(36,759)	(2,885,835)	(210,311)	-	(31,786)	(3,164,691)
Total other financing sources (uses)	3,091,173	(2,885,835)	(210,311)	-	4,973	-
Net change in fund balances (deficit)	1,154,609	(1,967,431)	(1,063,375)	-	24,238	(1,851,959)
Fund balance (deficit), beginning, as restated	1,539,296	5,458,455	6,689,546	-	2,031,252	15,718,549
Fund balance (deficit) at end of year	\$ 2,693,905	\$ 3,491,024	\$ 5,626,171	\$ -	\$ 2,055,490	\$ 13,866,590

Total governmental fund balances **\$ 13,866,590**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 84,464,554

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

Due from Commonwealth Government:

Property taxes - General Fund	\$ 145,334	
Sales and use taxes - Debt Service Fund	121,363	
P.R. Electric Power Authority (PREPA)	777,101	
P.R. Department of Labor - Law Num. 52	78,662	
P.R. Department of Family - Emergency Solutions Grant	27,916	
P.R. Administration for the Socioeconomic Development of Families - TANF Program	212,138	
P.R. Office of Ombudsman Administration - Special Program for the Aging-Title III, Part C	71,935	
Christmas bonus reimbursement	68,244	
Others	10,911	1,513,604

Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds (735,156)

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

General obligation bonds and notes	40,146,000	
General obligation bond anticipation note	765,348	
Section 108 Loan Guarantee notes payable	2,825,000	
Mortgages payable	1,650,200	
Note payable to CRIM - Law No. 146	363,856	
Payable to PREPA	777,100	
Compensated absences	2,771,615	
Christmas bonus	238,389	
Claims and judgments	4,034,228	
Landfill	36,207,341	(89,779,077)

Net position of governmental activities **\$ 9,330,515**

Net change in fund balances (deficit) - total governmental funds **\$ (1,851,959)**

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

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

Expenditures for capital assets	\$ 4,990,788	
Less: current-year depreciation	(7,410,145)	(2,419,357)

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

Property taxes - General Fund	145,334	
Sales and use taxes - Debt Service Fund	121,363	
Christmas bonus reimbursement (current year)	68,244	
P.R. Department of Labor - Law Num. 52	78,662	
Federal grants - TANF	212,138	
Federal grants - Emergency Solutions Grant	27,916	
Federal grants - Special Program for the Aging-Title III, Part C	71,935	736,503
Others	10,911	

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

P.R. Electric Power Authority (PREPA)	(1,107,414)	
P.R. Department of Labor - Law Num. 52	(43,068)	
Christmas bonus reimbursement (prior year)	(209,066)	
Federal grants - TANF	(44,401)	
Federal grants - Special Program for the Aging-Title III, Part C	(49,235)	
Federal grants - Child Care	(17,035)	(1,470,219)

Governmental funds only report the proceeds received in the disposal of assets. In the

Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the disposed asset (452)

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

Matured bonds and notes principal payments (net change)		6,000
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	2,324,000	
Other long-term liabilities	3,343,797	5,667,797

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

Christmas bonus	(238,389)	
Claims and judgments	(2,256,000)	
Landfill	(13,199,446)	
Accrued interest (net change)	(84,015)	(15,777,850)

Change in net position of governmental activities **\$ (15,109,537)**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Vega Baja** (the Municipality) was founded in 1776. The Municipality's governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration; public works and sanitation; public safety; health; welfare programs; community, urban and economic development; culture and recreation activities and educational services.

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

A. Financial reporting entity

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

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

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

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

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

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

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

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

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

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

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

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

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

Management's Discussion and Analysis

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

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

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

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

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

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

Fund Financial Statements (FFS)

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

The Municipality reports the following major governmental funds:

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

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

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

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

Head Start Fund – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5 years-old) and their families that are under the poverty line or are eligible for public assistance.

The FFS are accounted for using the *current financial resources* measurement focus and the *modified-accrual basis of accounting*. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both *measurable* and *available*). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Municipality considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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

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

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

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include the following: (1) payments of principal and interest on general long-term debt, which are recorded as expenditures when due, except for principal and interest due on July 1 (in this case, amounts are recorded as liabilities and expenditures on June 30 since amounts have been accumulated or transferred to the debt service fund before July 1 payments are made) and (2) vested compensated absences, claims and judgments and special termination benefits, which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the GWFS, the expense and related accrual liability for long-term portions of debt must be included).

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

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

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

C. Financial reporting presentation

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

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

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

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

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

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

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

D. Deposits and investments

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

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

E. Restricted assets

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

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

F. Receivables and due from governmental entities

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

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

G. Inter-fund receivables and payables

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

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

H. Inventories

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

I. Capital assets

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

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

<u>Description</u>	<u>Useful Life</u>
Buildings and site improvements	45 years
Infrastructure	10 years
Works of art	10 years
Vehicles	10 years
Furniture and fixtures	10 years
Machinery and equipment	10 years

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

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

J. Deferred outflows/inflows of resources

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

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

The government has three items that qualify for reporting in this category:

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

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

K. Long-term obligations

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

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

L. Compensated absences

The Municipality's employees accumulate vacation, sick leave and compensatory time based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2½ days per month of vacation and 1½ days per month of sick pay and compensatory time up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more service up to the maximum number of days.

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

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

M. Claims and judgments

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

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

N. Net position

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

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

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

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

O. Net position flow assumption

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

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

P. Fund balances

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

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

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

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

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

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

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

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

Q. Fund balance flow assumptions

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

R. Accounting for pension costs

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

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

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

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

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

S. Inter-fund and intra-entity transactions

The Municipality has the following types of transactions among funds:

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

T. Risk financing

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

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

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers

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

against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

U. Use of estimates

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

V. Future adoption of accounting pronouncements

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

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

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

6. **GASB Statement No. 77 “Tax Abatement Disclosures.”** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

W. Subsequent events

Subsequent events have been evaluated through March 25, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

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

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

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

Therefore, the Municipality’s management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality’s deposits is considered low at June 30, 2015.

Interest rate risk – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: 1) not including debt investments in its investment portfolio at June 30, 2015, 2) limiting the weighted average

2. CASH AND CASH EQUIVALENTS (CONTINUED)

maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value. Therefore, the Municipality's management has concluded that, at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollateralized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

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

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

Deposits – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$12,664,012 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amount to \$12,371,496 as of June 30, 2015.

3. RECEIVABLES

A. Municipal license taxes

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

3. RECEIVABLES (CONTINUED)

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

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$4,533,937 is recorded as unearned revenues.

B. Other receivables

The \$515 reported as other accounts receivable in the General Fund corresponds to miscellaneous construction permits and fees. The \$56,685 reported as other accounts receivable in the Other Governmental Funds corresponds to rent and administrative fees owed by other Public Housing Authorities (PHAs) on portability-in vouchers administered by the Municipality under the federal Section 8 Housing Choice Voucher Program as of June 30, 2015, as well as fraud recovery amounts owed by participants.

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4. DUE FROM (TO) GOVERNMENTAL ENTITIES

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

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund – General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 777,101	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	68,244	-
Municipal Revenue Collection Center (CRIM) – property taxes	145,334	
<u>Major fund – Debt service fund:</u>		
Municipal Revenue Collection Center (CRIM) – property taxes	363,539	-
<u>Major fund – Head Start:</u>		
P.R. Department of Family - Administration for the Care and Integral Development of Children	50,020	-
<u>Other Governmental Funds:</u>		
P.R. Department of Labor and Human Resources – Law No. 52	78,662	-
P.R. Department of Family - Socioeconomic Development Administration – TANF	212,138	-
P.R. Department of Transportation – Road Improvements	10,000	-
US Department of Homeland Security-Homeland Security Grants	9,543	-
P.R. Office of Ombudsman Administration (OAP)-OAP-Special Program for the Aging-Title III, Part C Nutrition Services	209,335	-
US Department of Transportation-Formula Grants for Rural Areas	-	26,593
U.S. Department of Housing and Urban Development – Emergency Solutions Grants Program	33,022	-
U.S. Department of Housing and Urban Development – Housing Choice Voucher Program		5,272
U.S. Department of Housing and Urban Development – Supportive Housing	-	10,937
Others	1,368	-
	<u>\$ 1,958,306</u>	<u>\$ 42,802</u>

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

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

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

<u>Description</u>	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund – General fund:</u>		
P.R. Employees Retirement System (ERS)	\$ 144,174	\$ -
P.R. Department of Labor – unemployment and drivers' insurance	1,743	-
P.R. Aqueduct and Sewer Authority (PRASA)	141,009	-
P.R. Telephone Company	22,136	-
Association of Employees of the Commonwealth of Puerto Rico	23,750	-
Internal Revenue Service	-	1,884
Others	3,619	-
<u>Major fund – Head Start:</u>		
Internal Revenue Service		52,624
P.R. Department of Family - Administration for the Care and Integral Development of Children	55,175	-
<u>Other governmental funds:</u>		
P.R. Department of Treasury-Law 82 & WIA	7,592	
	<u>\$ 399,198</u>	<u>\$ 54,508</u>

5. INTERFUND TRANSACTIONS

A. Due from/to other funds

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
General Fund	<u>Major Funds:</u>	
	Head Start	\$ 141,074
	Early Head Start	10,891
	<u>Other Governmental Funds:</u>	
	Special Revenue State & Local – Law No. 52	82,561
	Special Revenue Federal – Section 8 HCVP	28,279
	Special Revenue Federal – Supporting Housing	15,063
	Special Revenue Federal - Special Program for the Aging-Title III, Part C Nutrition Services	202,179
	Special Revenue Federal - Emergency Solutions Grants Program	67,078
	Special Revenue Federal - TANF	291,217

5. INTERFUND TRANSACTIONS (CONTINUED)

<u>Receivable Fund</u>	<u>Payable Funds</u>	<u>Amount</u>
	Special Revenue State & Local – Others	16,151
	Special Revenue Federal – Others	26,515
		<u>\$ 881,008</u>
 Other Governmental Funds	Major Funds:	
	General Fund	\$ 9,802
	Total	<u>\$ 890,810</u>

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

<u>Originating Fund</u>	<u>Receiving Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Funding of expenditures not covered by federal grants	\$ 36,759
Debt Service Fund	General Fund	Interest earned on restricted cash with fiscal agent	3,956
Debt Service Fund	General Fund	Transfer of funds for operational expenditures	242,096
Debt Service Fund	General Fund	Transfer of excess funds available in sinking fund for use in operating activities	2,881,880
	Total		<u>\$ 3,164,691</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>General Fund</u>	<u>Bond Issuances for Capital Projects Fund</u>	<u>Head Start Fund</u>	<u>Other Governmental funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 1,632,913	\$ 84,366	\$ 213,873	\$ 402,186	\$ 2,333,338
Accrued liabilities – payroll withholdings	345,988	-	-	-	345,988
Total	<u>\$ 1,978,901</u>	<u>\$ 84,366</u>	<u>\$ 213,873</u>	<u>\$ 402,186</u>	<u>\$ 2,679,326</u>

7. UNEARNED REVENUES

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

	<u>Amount</u>
<u>Major fund – General fund:</u>	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	<u>\$ 4,533,937</u>
<u>Other Governmental Funds:</u>	
Federal grants received for which qualifying expenditures have not been incurred:	
CDBG Entitlement	\$ 17,379
Disaster Grants – Public Assistance (Presidentially-Declared Disasters)	4,209
Section 108 Loan Guarantees	4,551
Community Services Block Grant	9,641
Child Care and Development Block Grant	23,800
Child and Adult Care Food Program	55,436
Housing Opportunities for Persons with AIDS (HOPWA)	10,014
Others	11,047
	<u>\$ 136,077</u>

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8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<u>Major fund - General fund:</u>		
P.R. Electric Power Authority (PREPA)	\$ 777,101	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	68,244	-
Municipal Revenue Collection Center (CRIM) – property taxes	145,334	
<u>Major fund – Debt service fund:</u>		
PR Governmental Development Bank-Sales and use tax	121,363	-
<u>Other governmental funds:</u>		
P.R. Department of Labor – Law No. 52	78,662	-
Emergency Solutions Grants Program		27,916
Homeland Security Program		9,543
Special Revenue Federal - Special Program for the Aging-Title III, Part C Nutrition Services	-	71,934
P.R. Department of Family – TANF	-	212,138
Others	-	1,368
	<u>\$ 1,190,704</u>	<u>\$ 322,899</u>

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9. FUND BALANCE

A. Fund balance classifications

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

	General Fund	Debt Service Fund	Bond Issuances For Capital Projects Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Restricted:						
General public works and sanitation	\$ 33,915	\$ -	\$ -	\$ -	\$ 1,588,307	\$ 1,622,222
Public safety	-	-	-	-	77,849	77,849
Sports, culture and recreation	-	-	-	-	11,914	11,914
Housing, welfare and community development	-	-	-	-	390,814	390,814
Urban and economic development	-	-	-	-	31,367	31,367
Education	-	-	-	-	354,478	354,478
Debt service	-	3,491,023	-	-	-	3,491,023
Capital outlays	-	-	5,626,169	-	-	5,626,169
General government and other purposes	1,923	-	-	-	16,522	18,445
	<u>35,838</u>	<u>3,491,023</u>	<u>5,626,169</u>	<u>-</u>	<u>2,471,250</u>	<u>11,624,281</u>
Unassigned	2,658,064	-	-	-	(415,758)	2,242,307
Total Fund Balance	<u>\$ 2,693,902</u>	<u>\$ 3,491,023</u>	<u>\$ 5,626,169</u>	<u>\$ -</u>	<u>\$ 2,055,493</u>	<u>\$ 13,866,588</u>

9. FUND BALANCE (CONTINUED)

B. Fund balance (deficits)

Certain special funds included in the fund statements disclosed fund balance (deficits). The most significant balances follow:

<u>Funds</u>	<u>Amount</u>
<u>Other Governmental Funds</u>	
P.R. Department of Labor – Law No. 52	\$ 78,662
P.R. Department of Family – TANF	\$ 212,138
Special Program for the Aging-Title III, Part C Nutrition Services	\$ 71,935
Emergency Solutions Grants Program	\$ 27,916
Homeland Security Program	\$ 9,543

The deficits result (1) from the recognition of deferred inflows of resources for unavailable revenues. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement (expenditure-driven grants) on fund statements when all applicable eligibility requirements have been met and the resources are available and (2) certain funds with cash shortfalls or without sufficient resources to cover their costs.

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10. CAPITAL ASSETS

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

	Balance July 1, 2014 as restated	Additions	Retirements	Balance June 30, 2015
Governmental Activities:				
Capital asset, not being depreciated:				
Land	\$ 15,130,132	\$ 404,576	\$ -	\$ 15,534,708
Construction in progress	24,293,354	2,732,505	(41,737)	26,984,122
Total capital assets not being depreciated	39,423,486	3,137,081	(47,737)	42,518,830
Capital assets, being depreciated:				
Buildings and building improvements	50,541,703	220,997	-	50,762,700
Equipment	4,547,337	421,894	(629)	4,968,602
Infrastructure and infrastructure improvements	59,052,978	1,071,270	-	60,124,248
Vehicles	8,284,799	168,223	-	8,453,022
Furniture and fixtures	62,263	4,394	(1,259)	65,398
Works of art	109,507	-	-	109,507
Computers	368,921	8,666	-	377,587
Total capital assets being depreciated	122,967,508	1,895,444	(1,888)	124,861,064
Less accumulated depreciation for:				
Buildings and building improvements	(18,317,652)	(1,123,050)	-	(19,440,702)
Equipment	(3,742,545)	(170,581)	629	(3,912,497)
Infrastructure and infrastructure improvements	(45,637,990)	(5,959,438)	-	(51,597,428)
Vehicles	(7,347,222)	(143,804)	-	(7,491,026)
Furnitures and fixtures	(59,443)	(627)	807	(59,263)
Works of art	(109,481)	(3)	-	(109,484)
Computers	(292,298)	(12,642)	-	(304,940)
Total accumulated depreciation	(75,506,631)	(7,410,145)	1,436	(82,915,340)
Total capital assets being depreciated, net	47,460,877	(5,514,701)	(452)	41,945,724
Governmental activities capital assets, net	\$86,884,363	\$(2,377,620)	\$ (42,189)	\$84,464,554

Depreciation expense was charged to governmental functions/programs as follows:

Governmental activities	Amount
General government	\$ 1,712,354
Public safety	5,399
Public works and sanitation	5,591,935
Culture and recreation	5,051
Health, welfare and community development	95,406
Total depreciation expense	\$ 7,410,145

11. LONG-TERM LIABILITIES**A. Summary of long-term debt activity**

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

Description	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General and special obligation bonds payable	\$ 41,796,000		(1,858,000)	39,938,000	1,812,000
General and special obligation notes payable	3,004,000		(466,000)	2,538,000	518,000
General obligation bond anticipation notes	765,348			765,348	
Section 108 Loan Guarantee notes payable	3,525,000		(700,000)	2,825,000	755,000
Mortgages payable	1,661,143		(10,943)	1,650,200	10,623
Notes payable to CRIM – financing of delinquent accounts (Law No. 146)	385,259		(21,403)	363,856	21,403
Payable to PREPA	1,884,515		(1,107,415)	777,100	777,100
Payable to CRIM- property tax advances	92,624		(92,624)	-	
Compensated absences	2,798,257		(26,642)	2,771,615	393,149
Christmas bonus	450,122	238,389	(450,122)	238,389	238,389
Claims and judgments	2,712,876	2,256,000	(934,648)	4,034,228	2,728,636
Landfill obligation	23,007,895	13,199,446		36,207,341	
Total	\$ 82,083,039	15,693,835	(5,667,797)	92,109,077,	7,254,300

B. Legal debt margin

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

11. LONG-TERM LIABILITIES (CONTINUED)

C. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2015 amount to \$39,938,000 and \$2,538,000, respectively. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. The Municipality levies an annual additional special ad valorem tax of three and a half percent (3.50%) of the assessed value of personal and real property. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" at the GDB to finance loans to Municipalities subject to restrictions imposed by law. The proceeds of the additional special ad valorem tax and of 0.2% sales and use tax are deposited in sinking funds established at GDB to redeem the bonds and notes payable of the Municipality in minimum annual or semiannual principal and interest payments, whereby sufficient funds are set aside in order to cover the projected debt service requirements, before any new bonds are issued.

Principal and interest payments on long-term debt are made through the CAE sinking fund except general and special obligation bonds and notes \$2,520,000, \$780,000, \$4,390,000, \$454,000 and \$630,000, which are made through the Municipal Redemption Fund (FRM). No new bonds or notes were issued during the fiscal year.

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

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

Bonds Payable

Description	Outstanding Balance
1997 series, \$4,340,000 bond for capital improvements, payable in annual installments of \$55,000 to \$375,000 through July 1, 2022; with interest rates ranging from 4.87% to 6.71% (6.19% at June 30, 2015)	2,335,000
1998 series, \$3,115,000 bond for capital improvements, payable in annual installments of \$60,000 to \$290,000 through July 1, 2019; with interest rates ranging from 4.87% to 6.51% (6.19% at June 30, 2015)	1,240,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2001 series, \$1,410,000 bond for capital improvements, payable in annual installments of \$20,000 to \$120,000 through July 1, 2026; with interest rates ranging from 2.70% to 5.60 (4.73% at June 30, 2015)	965,000
2001 series, \$310,000 bond for capital improvements, payable in annual installments of \$5,000 to \$25,000 through July 1, 2026; with interest rates ranging from 2.70% to 5.60% (4.73% at June 30, 2015)	215,000
2002 series, \$2,900,000 bond for capital improvements, payable in annual installments of \$50,000 to \$230,000 through July 1, 2027; with interest rates ranging from 2.70% to 5.60% (4.80% at June 30, 2015)	2,055,000
2002 series, \$545,000 bond for capital improvements, payable in annual installments of \$10,000 to \$45,000 through July 1, 2027; with interest rates ranging from 4.17% to 5.31% (4.45% at June 30, 2015)	385,000
2002 series, \$215,000 bond for capital improvements, payable in annual installments of \$5,000 to \$15,000 through July 1, 2027; with interest rates ranging from 4.17% to 5.31% (4.45% at June 30, 2015)	155,000
2003 series, \$1,760,000 bond for capital improvements, payable in annual installments of \$30,000 to \$130,000 through July 1, 2028; with interest rates ranging from 2.36% to 5.31% (4.45% at June 30, 2015)	1,280,000
2004 series, \$1,375,000 bond for capital improvements, payable in annual installments of \$65,000 to \$125,000 through July 1, 2019; with interest rates ranging from 4.17% to 4.80% (4.45% at June 30, 2015)	575,000
2005 series, \$815,000 bond for capital improvements, payable in annual installments of \$10,000 to \$65,000 through July 1, 2030; with interest rates ranging from 4.23% to 5.31% (4.45% at June 30, 2015)	660,000
2005 series, \$3,530,000 bond for capital improvements, payable in annual installments of \$65,000 to \$260,000 through July 1, 2030; with interest rates ranging from 1.48% to 6.60% (1.50% at June 30, 2015)	2,790,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2007 series, \$290,000 bond for capital improvements, payable in annual installments of \$5,000 to \$25,000 through July 1, 2032; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	255,000
2008 series, \$4,390,000 bond for capital improvements, payable in annual installments of \$70,000 to \$360,000 through July 1, 2032; with interest rates ranging from 1.48% to 7.00% (1.50% at June 30, 2015)	3,860,000
2008 series, \$454,000 bond for capital improvements, payable in annual installments of \$38,000 to \$65,000 through July 1, 2017; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	183,000
2008 series, \$1,530,000 bond for capital improvements, payable in annual installments of \$20,000 to \$130,000 through July 1, 2033; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	1,370,000
2009 series, \$1,460,000 bond for capital improvements, payable in annual installments of \$35,000 to \$135,000 through July 1, 2028; with interest rates ranging from 4.75% to 7.50% (4.75 at June 30, 2015)	1,215,000
2009 series, \$1,390,000 bond for capital improvements, payable in annual installments of \$20,000 to \$120,000 through July 1, 2033; with interest rates ranging from 4.75% to 7.50% (4.75% at June 30, 2015)	1,245,000
2009 series, \$505,000 bond for the payment of operating expenses, payable in annual installments of \$20,000 to \$55,000 until July 1, 2024; with interest rates ranging from 4.75% to 7.50% (4.75% at June 30, 2015)	395,000
2009 series, \$4,110,000 bond for capital improvements, payable in annual installments of \$60,000 to \$350,000 through July 1, 2034; with interest rates ranging from 5.00% to 7.50% (5.00 at June 30, 2015)	3,760,000
2010 series, \$2,110,000 bond for the payment of operating expenses, payable in annual installments of \$80,000 to \$225,000 through July 1, 2024; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	1,640,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2010 series, \$2,315,000 bond for capital improvements, payable in annual installments of \$35,000 to \$200,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	2,165,000
2010 series, \$2,520,000 bond for the payment of operating expenses, payable in annual installments of \$35,000 to \$215,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	2,355,000
2010 series, \$780,000 bond for capital improvements, payable in annual installments of \$10,000 to \$70,000 through July 1, 2035; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	730,000
2011 series, \$4,575,000 bond for capital improvements, payable in annual installments of \$125,000 to \$500,000 through July 1, 2028; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	4,075,000
2012 series, \$1,810,000 bond for the payment of operating expenses, payable in annual installments of \$45,000 to \$175,000 through July 1, 2029; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	1,650,000
2013 series, \$2,440,000 bond for capital improvements, payable in annual installments of \$55,000 to \$225,000 through July 1, 2033; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	2,385,000
Total	<u>\$ 39,938,000</u>

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

June 30,	Principal	Interest
2016	\$ 1,812,000	\$ 2,305,727
2017	1,931,000	2,503,143
2018	2,070,000	2,367,806
2019	2,140,000	2,227,662
2020	2,290,000	2,077,086
2021-2025	11,335,000	8,140,888
2026-2030	11,380,000	4,050,271
2031-2035	6,495,000	1,019,600
2035-2039	485,000	-
Total	<u>\$ 39,938,000</u>	<u>\$ 24,692,183</u>

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

Description	Outstanding Balance
2008 series, \$360,000 note for capital assets acquisition, payable in annual installments of \$25,000 to \$50,000 through July 1, 2018; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	\$ 175,000
2008 series, \$131,000 note for capital assets acquisition, payable in annual installments of \$15,000 to \$23,000 through July 1, 2015; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	23,000
2008 series, \$150,000 note for capital assets acquisition, payable in annual installments of \$15,000 to \$25,000 through July 1, 2015; with interest rates ranging from 1.48% to 7.50% (1.50% at June 30, 2015)	25,000
2009 series, \$170,000 note for capital assets acquisition, payable in annual installments of \$20,000 to \$30,000 through July 1, 2016; with interest rates ranging from 5.00% to 7.50% (5.00% at June 30, 2015)	60,000
2009 series, \$355,000 note for capital assets acquisition, payable in annual installments of \$40,000 to \$60,000 through July 1, 2016; with interest rates ranging from 5.00% to 7.50% (5.00% at June 30, 2015)	120,000
2012 series, \$980,000 note for capital assets acquisition, payable in annual installments of \$110,000 to \$170,000 through July 1, 2019; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	750,000
2012 series, \$630,000 note for capital assets acquisition, payable in annual installments of \$70,000 to \$110,000 through July 1, 2019; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	485,000
2013 series, \$1,010,000 note for capital assets acquisition, payable in annual installments of \$110,000 to \$175,000 through July 1, 2020; with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2015)	900,000
Total	<u>\$ 2,538,000</u>

11. LONG-TERM LIABILITIES (CONTINUED)

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

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 518,000	\$ 134,280
2017	495,000	114,375
2018	435,000	81,750
2019	470,000	46,500
2020	445,000	13,125
2021-2025	175,000	-
Total	\$ 2,538,000	\$ 390,030

D. Other long-term liabilities

General obligation bond anticipation notes – The Municipality has issued \$765,348 in general obligation bond anticipation notes to Rural Development (“RD”). They are part of a total note of \$3,500,000 to be issued to finance the construction of a school of fine arts and an electronic library financed by RD. The notes bear interest at 3.75%, due on the date of the final payment issued by RD to the Municipality, but not exceeding 10 years from the date of the notes. The Municipality intends to refinance these notes on a long term basis through a \$3,500,000 general obligation bond issuance approved by the Municipal Legislature and the Governmental Development Bank for Puerto Rico, payable from the additional special ad valorem tax sales and used taxes deposited in the CAE sinking fund. Issuance will occur after the construction project is finished.

<u>Outstanding Amount</u>
\$ 765,348

11. LONG-TERM LIABILITIES (CONTINUED)

**Outstanding
Amount**

Section 108 Loan Guarantee notes payable – The Municipality entered into various financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The first agreement was issued on August 7, 2004 in the amount of \$3,200,000 for public improvements and municipal facilities reconstruction project. This note is payable in annual installments of \$175,000 to \$200,000 through August 1, 2023, bearing interest rates ranging from 2.41% to 5.69% (4.83% at June 30, 2015). The second and third agreements were issued on July 21, 2010 in the amounts of \$1,905,000 and \$1,245,000, respectively, as part of a refinancing agreement of the principal amounts owed on two outstanding loans issued for the original amounts of \$6,455,000 and \$2,370,000, respectively. The \$6,455,000 loan was issued on August 1, 1996 for a public facilities and housing rehabilitation project. The \$2,370,000 was issued on August 1, 2000 for the Casa Portela Museum and recreational areas project. The \$1,905,000 note is payable in annual installments of \$350,000 to \$455,000 through August 1, 2015, bearing interest rates ranging from 0.56% to 2.20% (1.34% at June 30, 2015). The \$1,245,000 note is payable in annual installments of \$125,000 to \$185,000 through August 1, 2019, bearing interest rates from 0.56% to 3.30% (1.34% at June 30, 2015). The payment of principal and interest of these notes are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program and from the program income generated from the projects financed with the loans. Debt service requirements in future years are as follows:

\$ 2,825,000

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 755,000	\$ 109,086
2017	300,000	92,066
2018	300,000	79,415
2019	360,000	65,374
2020	360,000	49,950
2021-2023	<u>750,000</u>	<u>87,543</u>
Total	<u>\$ 2,825,000</u>	<u>\$ 483,434</u>

11. LONG-TERM LIABILITIES (CONTINUED)

**Outstanding
Amount**

Mortgages payable – On 2004, the Municipality formed the Municipality of Vega Baja Home Investment Partnership Program to acquire, rehabilitate, own and operate an apartment project (elderly home) located in Vega Baja. The Municipality has agreed to maintain all apartment units as both rent restricted and occupied by low-income tenants for a period of 20 years beginning 2006. The construction of the apartment structure was primarily financed under the National Housing Act through an issuance of a demand note in the amount of \$1,107,120 from the P.R. Department of Housing on February 25, 2004. Subsequently, on January 19, 2006, the P.R. Department of Housing subordinated its rank in the mortgage in favor of the P.R. Housing Finance Authority. This note accrues interest annually at a rate of 5% and the total amount accrued as of June 30, 2015 was \$576,625. In addition, on January 19, 2006, the Municipality issued a second HUD – insured mortgage note in the amount of \$610,000 from the P.R. Housing Finance Authority to complete the construction of the apartment building. This note is payable in monthly installments of \$3,657, including interest at 6% per annum, until February 1, 2038. Accrued interest as of June 30, 2015 amounts to \$2,770. Substantially, all of the rental property and equipment is pledged as collateral on these mortgage notes. Debt service requirements in future years for are as follows:

\$ 543,080

Year	Principal	Interest
First Mortgage - Demand Note	\$ 1,107,120	\$ -
Second Mortgage		
June 30, 2016	11,618	32,269
2017	12,335	31,552
2018	13,096	30,791
2019	13,904	29,983
2020	14,761	29,126
2021-2025	88,638	130,797
2026-2030	119,559	99,876
2031-2035	161,268	58,167
2036-2037	107,901	9,131
Total	\$ 543,080	\$ 451,692

11. LONG-TERM LIABILITIES (CONTINUED)

	Outstanding Amount
<p>Note payable to CRIM (Law No. 42) – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On July 1, 2007 the Municipality entered into the financing agreement with the CRIM for a total amount of \$535,143, bearing interest at 2.04% and due on July 1, 2032. Debt service requirements in future years are as follows:</p>	<p>\$ 34,246</p>

June 30,	Principal	Interest
2016	21,403	9,111
2017	21,403	8,575
2018	21,403	8,039
2019	21,403	7,503
2020	21,403	6,967
2021-2025	107,016	26,797
2026-2030	107,016	13,398
2031-2032	42,808	1,609
Total	\$ 363,855	\$ 81,999

<p>Payable to PREPA - As required by Act No. 83 of May 2, 1941, the Puerto Rico Electric Power Authority (“PREPA”) should annually pay to the Municipalities of Puerto Rico a contribution in lieu of tax (“CELI”) based on certain requirements as specified by the mentioned Act. The amount of CELI obligation is used by the Municipalities to finance the annual electric utility expense payment to PREPA. However, PREPA has not yet issued the final liquidation for the fiscal year ended on June 30, 2014. Therefore, as of June 30, 2015, the outstanding amount of \$777,100 only includes the unamortized balance from the fiscal year 2013, and is recognized by the Municipality as a receivable and a liability to PREPA. Debt service requirements in future years are as follows:</p>	<p>\$ 777,100</p>
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11. LONG-TERM LIABILITIES (CONTINUED)

<u>June 30</u>	<u>Principal</u>
2016	<u>\$ 777,100</u>
Total	<u><u>\$ 777,100</u></u>

Outstanding
Amount

Compensated absences - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.

\$ 2,771,615

Christmas bonus - represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015.

\$ 238,389

Claims and judgments - represents the estimated loss of legal cases to be paid subsequent to June 30, 2015. The awarded amount, if any, will be paid with unrestricted funds.

\$ 4,034,228

Landfill Obligation- State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized as other long-term debt the current estimate for landfill closure and post-closure costs as of June 30, 2015. Of this estimate, the portion attributable to post-closure costs has been assessed to be approximately \$13,512,569 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. No sinking fund has been established for the payment of these costs.

\$ 36,207,341

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2015 are 8.53% for personal property and 10.53% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	3.50%
Total tax rate:	<u>8.53%</u>	<u>10.53%</u>
 Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	 <u>(.20%)</u>	 <u>(.20%)</u>
 Total percent to be paid by taxpayers:	 <u>8.33%</u>	 <u>10.33%</u>

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

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

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net receivable of \$145,334 resulting from the final settlement of fiscal year 2015 recorded as deferred inflow of resources in the funds' Balance Sheet since it was collected after the availability period.

12. PROPERTY TAXES (CONTINUED)

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2015. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2014-15, the Municipality received revenues from this property tax amnesty in the amount of \$15,915.

13. SALES AND USE TAXES

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

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

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

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

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

13. SALES AND USE TAXES (CONTINUED)

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

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

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

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

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

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

13. SALES AND USE TAXES (CONTINUED)

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

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

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

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

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

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

13. SALES AND USE TAXES (CONTINUED)

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Vega Baja, the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to \$452,994, \$360,513 and \$902,568, respectively. The final settlement for the fiscal year 2014-15 resulted in a total receivable of \$121,363 for the FDM and FRM, which was recognized as a deferred inflow of resources in the FFS.

14. INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND

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

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$4,324,261
Reimbursement from P.R. Department of Treasury - Christmas Bonus reimbursement	219,485
Amount received from the Office of Management and Budget (OMB) to subsidy part of the costs related to the 2014-15 postemployment benefits (see note 15)	<u>212,612</u>
	<u>\$ 4,756,358</u>

14. INTERGOVERNMENTAL REVENUES AND FEES, FINES AND CHARGES FOR SERVICES - GENERAL FUND (CONTINUED)

B. Fees, fines and charges for services revenues reported in the general fund are comprised of the following:

	<u>Amount</u>
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	\$ 3,477,575
Construction permits	534,440
Medical emergency services	178,574
Rental income	130,403
Licenses and permits	66,447
Traffic fines	8,231
Other	<u>55,125</u>
	<u><u>\$ 4,450,795</u></u>

15. PENSION PLAN

General Information about the Pension Plan

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

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

15. PENSION PLAN (CONTINUED)

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

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

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$787,478.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$198,021, of which \$39,699 (20%) was subsidized by the OMB.

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

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

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided

15. PENSION PLAN (CONTINUED)

to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

16. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 15, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to \$470,199, of which \$172,913 (37%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund. An excess payment of \$14,591 was recorded as other assets in the financial statements.

17. COMMITMENTS

A. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$188,496. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

B. Encumbrances

As of June 30, 2015, the Municipality has encumbrances outstanding totaling \$125,274, which represent the estimated amount of expenditures required to complete contracts, purchase orders and other commitments in process of completion at fiscal year-end. As required by current standards, outstanding encumbrances as of June 30, 2015 are reported as unassigned amounts in the general fund. Purpose classification follows:

17. COMMITMENTS (CONTINUED)

<u>Purpose</u>	<u>General Fund- unassigned fund balance</u>
General public works and sanitation	\$ 35,626
Culture and recreation	3,530
General government and other purposes	86,118
	<u>\$ 125,274</u>

Fund balance of major and other governmental funds (special revenue, capital project and debt service funds) is classified as restricted, some or all of which may be encumbered. Encumbrances of restricted fund balance are not reported separately from this classification because the encumbrance does not further restrict the purpose for which the resources may be used.

18. CONTINGENCIES

A. Federal and State grants

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

B. Litigations

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of various legal cases as of June 30, 2015 and not to be covered by insurance, the Municipality accrued an estimated loss of \$4,034,228 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

18. CONTINGENCIES (CONTINUED)**C. Remedial action project for the Municipality of Vega Baja's former solid waste disposal site**

The Municipality of Vega Baja's former solid waste disposal site (the Site) covers approximately 72 acres in the Brisas del Rosario community. From 1948-1979, the Site was owned by the P.R. Land Authority and used by the Municipality as an open burning dump for residential, commercial and industrial waste. Approximately 55 acres of the Site are residential and the remaining 17 acres are undeveloped and heavily vegetated. On July 2, 1999, the U.S. Environmental Protection Agency (EPA) listed the Site on the National Priorities List pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §9601 et seq. ("CERCLA" or "Superfund"), thereby designating the Site for cleanup. The EPA identified as responsible parties Allied Waste of Puerto Rico, Inc., Pfizer, Inc. and Motorola Solutions, Inc. ("Private-sector Parties"); the P.R. Land Authority, the P.R. Electric and Power Authority and the P.R. Housing Department (the "Public-sector Parties"); and finally, the Municipality of Vega Baja.

In June 2009, the EPA issued a claim in the amount of \$7.976 million dollars against the responsible parties for the initial remedy actions taken by the Agency at the Site. Both the Private and Public-sector Parties made payments to EPA in partial reimbursement of these costs as part of the settlements documented by Consent Decrees signed between the parties and the Agency. The Municipality of Vega Baja did not issue any reimbursement for these costs.

On September 30, 2010, the EPA issued a Record of Decision ("ROD") selecting a Remedial Action for the Site that will be conducted by contractors engaged by the Private-sector Parties under the oversight of the EPA and the P.R. Environmental Quality Board ("PREQB"). Long-term operation and maintenance of the Remedial Action and implementation of institutional controls will be undertaken by the Public-Sector Parties. The total costs for the Remedy Action are estimated at approximately \$7 million dollars, which brings the total costs for the cleanup and restoration of the Site to approximately \$15 million dollars.

During the fiscal year 2014-15, one of the Private-sector Parties filed a civil claim against the Municipality requesting a contribution pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. §§9601 et seq. The plaintiffs are claiming payment of 75% of \$7,000,000 (\$5,250,000). The case is currently in the discovery stage, but the Municipality's counsel believes that a unfavorable outcome is highly probable and therefore, Management has decided to recognize an estimated loss of \$1,750,000 as part of the claims and judgments debt reported in the government-wide Statement of Net Position.

19. RESTATEMENT OF FUND BALANCE AND NET POSITION

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

<u>Description</u>	<u>Fund Balance Other Governmental Funds</u>	<u>Net Position Government- Wide Statements</u>
Fund balance / net position, at beginning of year, as previously reported	\$ 1,895,041	\$ 34,450,213
<u>Correction of errors:</u>		
Net overstatement of capital assets	-	(10,146,372)
Understatement cash with fiscal agent	136,211	136,211
Fund balance / net position, at end of year, as restated	<u>\$ 2,031,252</u>	<u>\$ 24,440,052</u>

20. SUBSEQUENT EVENTS

Puerto Rico Fiscal and Economic Growth Plan

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

New Guidelines for the Calculation of the Contribution In Lieu of Taxes ("CELI")

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

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

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

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

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt

20. SUBSEQUENT EVENTS

service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Actual Amounts (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES:				
Taxes:				
Property taxes	\$ 6,780,015	\$ 6,780,015	\$ 6,780,015	\$ -
Municipal license taxes	6,545,072	6,545,072	6,947,754	402,682
Sales and use taxes	2,225,000	2,225,000	1,966,629	(258,371)
Intergovernmental	2,689,963	2,689,963	2,897,061	207,098
Fees, fines and charges for services	2,693,469	3,007,155	3,158,337	151,182
Interest	15,000	15,000	2,252	(12,748)
Miscellaneous	455,000	455,000	321,492	(133,508)
Total revenues	21,403,519	21,717,205	22,073,540	356,335
EXPENDITURES:				
Current:				
General government	11,083,734	11,800,434	12,349,496	(549,062)
Public works and sanitation	4,209,142	4,487,367	3,941,957	545,410
Public safety	1,737,409	1,470,442	1,469,542	900
Culture and recreation	1,892,359	1,686,842	1,818,120	(131,278)
Health	1,163,263	1,217,833	1,217,833	-
Welfare and community development	1,123,175	876,650	956,302	(79,652)
Urban and economic development	168,861	152,061	151,691	370
Education	25,576	25,576	25,576	-
Total expenditures	21,403,519	21,717,205	21,930,517	(213,312)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 143,023	\$ 143,023

The accompanying notes are an integral part of this required supplementary information.

NOTE B - BUDGET TO GAAP RECONCILIATION - Continued

Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (budgetary basis)	\$ 143,023
Budget to GAAP differences:	
Entity differences:	
Non-budgeted funds recorded as revenues for financial reporting purposes	1,202,597
Non-budgeted funds recorded as expenditures for financial reporting	(2,838,041)
Non-budgeted transfers-in	3,092,191
Basis of accounting differences:	
Revenues recorded for financial reporting purposes but not in budgetary basis	31,785
Revenues recorded for budgetary basis purposes but not in financial reporting	(39,919)
Expenditures recorded for financial reporting purposes but not in budgetary basis	(400,478)
Expenditures recorded in budgetary basis but not for financial reporting purposes	10,061
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary reporting purposes	125,274
Prior year encumbrances recorded as expenditures for financial reporting purposes	(171,884)
Net change in fund balance (GAAP basis):	<u>\$ 1,154,609</u>

1. BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

The Municipal budget is prepared for the General Fund following the requirements of the Autonomous Municipal Law of 1991, as amended. It is developed utilizing elements of performance-based program budgeting and zero-based budgeting and includes estimates of revenues and other sources for ensuing fiscal year under laws existing at the time the budget is prepared.

Budget amendments are approved by the Municipal Legislature. Certain budget transfers within the limitations and restrictions of the Municipal Law can be approved by the Mayor or by the Municipal Legislature. The budget comparison schedule provides information about the original budget, the amended budget and the actual results, under the budgetary basis of accounting.

The budgetary basis of accounting is different from GAAP. Revenues are generally recorded when cash is received and expenditures are generally recorded when the related expenditure is incurred or encumbered. The encumbrances (that is, purchase orders, contracts) are considered expenditures when a commitment is made. On a GAAP basis encumbrances outstanding at year-end are reported in the governmental funds statements as assigned fund balance since they do not constitute expenditures or liabilities while on a budgetary basis encumbrances are recorded as expenditures of the current year. Encumbrance appropriations lapse one year after the end of the fiscal year. Unencumbered appropriations are lapsed at year-end. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is at the function level.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

2. BUDGET TO GAAP RECONCILIATION

The accompanying budgetary comparison schedule presents comparisons of the original and final legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for the purposes of developing data on a budgetary basis differ significantly from those used to present accounting principles generally accepted in the United States, the following budget to GAAP reconciliation is presented:

Line Item #

Assets	Current Assets Cash:	
111	Cash - Unrestricted	\$ 45,385
113	Cash - Other Restricted	\$ 27,630
100	Total Cash	<u>\$ 73,015</u>
	Receivables:	
121	Accounts Receivable - PHA Projects	\$ 23,802
122	Accounts Receivable - HUD Other Projects	\$ 5,272
128	Fraud Recovery	\$ 50,293
128.1	Allowance for Doubtfull Accounts - Fraud	\$ (17,410)
120	Total Receivables, Net of Allowances for Doubtful Accounts	<u>\$ 61,957</u>
150	Total Current Assets	\$ 134,972
	NonCurrent Assets	
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	\$ 69,822
166	Accumulated Depreciation	\$ (51,906)
160	Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 17,916</u>
180	Total Non-Current Assets	\$ 17,916
190	Total Assets	<u>\$ 152,888</u>
290	Total Assets and Deferred Outflow of Resources	<u><u>\$ 152,888</u></u>
Liabilities and Equity	Liabilities	
	Current Liabilities:	
312	Accounts Payable <= 90 days	\$ 13,110
332	Accounts Payable - PHA Projects	\$ 1,648
310	Total Current Liabilities	<u>\$ 14,758</u>
300	Total Liabilities	\$ 14,758
Equity	Equity	
508.4	Net Investment in Capital Assets	\$ 17,916
511.4	Restricted Net Position	\$ 40,008
512.4	Unrestricted Net Position	\$ 80,206
513	Total Equity - Net Assets/Position	<u>\$ 138,130</u>
600	Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position	<u><u>\$ 152,888</u></u>

Line Item #

70600	HUD PHA Operating Grants	\$ 1,532,206
71400	Fraud Recovery	\$ 8,512
71500	Other Revenue	\$ 112,988
70000	Total Revenue	\$ 1,653,706
	Expenses	
	Administrative:	
91100	Administrative Salaries	\$ 117,404
91500	Employee Benefit Contributions - Administrative	\$ 39,818
91600	Office Expenses	\$ 19,936
91000	Total Operating - Administrative	\$ 177,158
	Expenses	
	Administrative:	
96200	Other General Expenses	\$ 4,118
96600	Bad debt - Other	\$ 17,410
96000	Total Other General expenses	\$ 21,528
96900	Total Operating Expenses	\$ 198,686
97000	Excess of Operating Revenue over Operating Expenses	\$ 1,455,020
97300	Housing Assistance Payments	\$ 1,430,592
97350	HAP Portability-In	\$ 98,188
97400	Depreciation Expense	\$ 10,596
90000	Total Expenses	\$ 1,738,062
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	\$ (84,356)
	Memo Account Information:	
*11030	Beginning Equity	\$ 222,486
*11170	Administrative Fee Equity	\$ 98,122
*11180	Housing Assistance Payments Equity	\$ 40,008
*11190	Unit Months Available	3,324
*11210	Number of Unit Months Available	3,156

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Rural Economic Development Loans and Grants	10.854	N/A	\$ 2,689
Pass-through programs from:			
<u>P.R. Department of Education</u>			
Child and Adult Care Food Program	10.558	Not Available	628,746
Subtotal U.S. Department of Agriculture			631,435
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	1,020,563
Supportive Housing Program	14.235	N/A	403,184
Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	103,396
Section 8 Housing Choice Vouchers	14.871	N/A	1,532,206
Pass-through programs from:			
<u>P.R. Department of Family</u>			
Emergency Solutions Grants Program	14.231	Not Available	94,995
<u>P.R. Department of Housing - (Puerto Rico Public Housing Administration "PRPHA"):</u>			
HOME Investment Partnerships Program	14.239	Not Available	65,066
<u>Municipality of San Juan</u>			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	43,492
Subtotal U.S. Department of Housing and Urban Development			3,262,902
U.S. DEPARTMENT OF TRANSPORTATION			
Pass-through programs from:			
<u>P.R. Department of Transportation and Public Works</u>			
Formula Grants for Rural Areas	20.509	Not Available	118,623
Subtotal U.S. Department of Transportation			118,623
U.S. DEPARTMENT OF EDUCATION			
Pass-through programs from:			
<u>P.R. Department of Labor - Vocational Rehabilitation Administration</u>			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	Not Available	1,848
Subtotal U.S. Department of Education			1,848

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through programs from:			
<u>P.R. Office of Ombudsman Administration (OAP):</u>			
Special Program for the Aging-Title III, Part C. Nutrition Services	93.045	Not Available	167,143
<u>P.R. Department of Family - Socioeconomic Development Administration</u>			
Temporary Assistance for Needy Families (TANF)	93.558	Not Available	257,018
<u>P.R. Department of Family - Families and Children Administration:</u>			
Community Services Block Grant	93.569	Not Available	111,765
Child Care and Development Block Grant	93.575	Not Available	165,583
<u>P.R. Department of Family - Administration for the Care and Integral Development of Children</u>			
Head Start	96.300	Not Available	5,827,918
Early Head Start	96.300	Not Available	266,610
Subtotal U.S. Department of Health and Human Services			6,796,037
U.S. DEPARTMENT OF HOMELAND SECURITY			
Pass-through programs from:			
P.R. Governor's Office - Governor's Authorized Representative (GAR)			
Homeland Security Grant Program	97.067	Not Available	9,543
Subtotal U.S. Department of Homeland Security			9,543
Total Expenditures of Federal Awards			\$ 10,820,388
			\$ 10,998,238
		Diferencia Seccion 8	\$ (177,850)

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Description	Head Start	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 6,094,529	\$ 4,725,859	\$ 10,820,388
Additional amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program	-	177,850	177,850
Non-federal awards expenditures	-	2,036,201	2,036,201
Total expenditures, fund statements	\$ 6,094,529	\$ 6,939,910	\$ 13,034,439

4. LOAN GUARANTEES AND MORTGAGES PAYABLE

The Municipality entered into various financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The first agreement was issued on August 7, 2004 in the amount of \$3,200,000 for public improvements and municipal facilities reconstruction project. The second and third agreements were issued on July 21, 2010 in the amounts of \$1,905,000 and \$1,245,000, respectively, as part of a refinancing agreement of the principal amounts owed on two outstanding loans issued for the original amounts of \$6,455,000 and \$2,370,000, respectively. The \$6,455,000 loan was issued on August 1, 1996 for a public facilities and housing rehabilitation project. The \$2,370,000 was issued on August 1, 2000 for the Casa Portela Museum and recreational areas project.

On 2004, the Municipality formed the Municipality of Vega Baja Home Investment Partnership Program to acquire, rehabilitate, own and operate an apartment project (elderly home) located in Vega Baja. The construction of the apartment structure was primarily financed under the National Housing Act through an issuance of a demand note in the amount of \$1,107,120 from the P.R. Department of Housing on February 25, 2004. In addition, on January 19, 2006, the Municipality issued a second HUD – insured mortgage note in the amount of \$610,000 from the P.R. Housing Finance Authority to complete the construction of the apartment building.

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

<u>CFDA No.</u>	<u>Program Name</u>	<u>Loan Outstanding Balance</u>
14.248	Community Development Block Grants-Section 108 Loan Guarantee	<u>\$ 2,825,000</u>
14.239	Home Investment Partnership Program HUD-Insured Loans	<u>\$ 1,650,200</u>



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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Vega Baja
Vega Baja, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Vega Baja**, Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Vega Baja's** basic financial statements and have issued our report thereon dated March 25, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and reportable instances of noncompliance.

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

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

Internal Control over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit, we did not identify any additional deficiencies in internal control that we considered significant deficiencies.

Compliance and Other Matters

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

Municipality of Vega Baja's Response to Findings

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

Purpose of this Report

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2016

Stamp No. 2728500 of the Puerto Rico
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López-Vega, CPA, PSC

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Vega Baja
Vega Baja, Puerto Rico**

Report on Compliance for Each Major Federal Program

We have audited the **Municipality of Vega Baja'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 Baja's** major federal programs for the year ended June 30, 2015. **Municipality of Vega Baja's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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



López-Vega, CPA, PSC

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

Basis for Qualified Opinion on Head Start and Supportive Housing Programs

As described in the accompanying schedule of findings and questioned costs, the **Municipality of Vega Baja** did not comply with requirements regarding **CFDA 93.600 Head Start** and **CFDA 14.235 Supportive Housing Program** as described in finding numbers **2015-002** and **2015-005** for **Accounting Records** and **2015-003** and **2015-006** for **Reporting – Financial Administration**. Compliance with such requirements is necessary, in our opinion, for the **Municipality of Vega Baja** to comply with the requirements applicable to that program.

Qualified Opinion on Head Start and Supportive Housing Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Municipality of Vega Baja** complied, in all material aspects, with the types of compliance requirements referred to above that could have a direct and material effect on the **CFDA 93.600 Head Start** and **CFDA 14.235 Supportive Housing Program** for the year ended June 30, 2015.

Unqualified Opinion on Each of the Other Major Federal Programs

In our opinion, the **Municipality of Vega Baja** 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 other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2015-004** and **2015-007**. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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



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

compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Vega Baja’s** internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items **2015-002, 2015-003, 2015-005 and 2015-006** to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance in the accompanying schedule of findings and questioned costs as items **2015-004 and 2015-007** to be significant deficiencies.

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



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

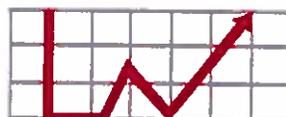
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirement of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 25, 2016

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Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	GWFS-Qualified	FFS - Unmodified
Internal control over financial reporting:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered being material weaknesses?	Yes	None X
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes X	No
Significant deficiencies identified not considered being material weaknesses?	Yes X	No
Type of auditor’s report issued on compliance for major programs:	Unmodified, except for qualified Head Start Cluster and Supportive Housing Program	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.558	Child Care and Adult Care Food Program
14.235	Supporting Housing Program
20.509	Formula Grants for Rural Areas
93.600	Head Start Program

Dollar threshold used to distinguish between Type A and Type B programs \$324,612

Auditee qualified as low-risk auditee? Yes No X

Section II – Financial Statements Findings

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

Finding Reference	2015-001
Requirement	Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (NC)
Statement of Condition	<p>Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i>. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality’s governmental activities has not been determined.</p> <p>In addition, the Municipality’s financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.</p>
Criteria	<p>GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.</p>
Cause of Condition	<p>The Municipality’s pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.</p>
Effect of Condition	<p>The Municipality’s Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position for the fiscal year ended on June 30, 2015.</p>

Section II – Financial Statements Findings

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

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

Questioned Cost None

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

Implementation Date: During the 2015-2016 fiscal year

Responsible Persons: Ms. Waleska Rivera Coira
Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-002
Program	Head Start (CFDA. No. 93.600), U.S. Department of Health and Human Services; Pass through the P.R. Department of Family – Administration for the Care and Integral Development of Children (ACUDEN)
Requirement	Accounting Records (MW)
Statement of Condition	During our audit, we noted that the Program did not maintain an adequate set of accounting records for the Head Start Program to fairly present the financial position of the program and results of its operations. No general ledger was prepared for the recording of the Program’s programmatic and administrative expenditures. The financial information reported in the monthly request for funds is based on accounting information compiled from different sources and not from a complete set of accounting records.
Criteria	<p>45 CFR Part 92, Subpart C Section 92.20 (a) (1) and (2) and (b) (1) and (2), <i>Standards for Financial Management Systems</i>, establishes that fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors, must be sufficient to: permit preparation of reports required by this part and the statutes authorizing the grant; and the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. The financial management system of other grantees and sub-grantees must meet the following standards:</p> <ul style="list-style-type: none"> • <i>Financial reporting:</i> Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or sub-grant. • <i>Accounting records:</i> Grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
Cause of Condition	Adequate internal controls and proper monitoring procedures do not exist to ensure the maintenance of a complete set of accounting records as required by the Program’s regulations and grant agreement. Also, the accounting personnel does not possess the adequate training to ensure a proper recognition of the Program’s financial transactions.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-002 (Continued)
Effect of Condition	The Program is not in compliance with 45 CFR Part 92, Subpart C Section 92.20 (a) (1) and (2) and (b) (1) and (2), <i>Standards for Financial Management Systems</i> .
Recommendation	Management should take necessary steps to establish and maintaining proper internal controls and periodic monitoring procedures to ensure the correct recognition of the Program’s financial and budgetary transactions in a complete set of accounting records, using the double-entry system. The Program must give financial training to the personnel in charge of the accounting record-keeping and preparation of the financial reports to ascertain that: (1) the accounting system complies with state and federal laws, (2) all the transactions related to assets, liabilities, revenues and expenditures is recorded and reconciled in a timely manner.
Questioned Costs	None
Management Response and Corrective Action	<p>The Head Start Agency of Vega Baja will establish the following program procedures to review and prepare the reports, as required:</p> <ul style="list-style-type: none"> • The auxiliary accountant will complete the monthly reconciliation for the data recorded in the SIMA accounting system. The employee will validate the result from the match between both accounting systems (SIMA & Abila). If a variance is identified, the employee will partner with the Program’s accountant to investigate the differences and address the problem. • The accountant will complete the monthly reconciliation for the accounting data recorded in the Abila system. • Auxiliary Accountant to meet the following deadlines: <p>Implementation Date: During the 2015-2016 fiscal year</p> <p>Responsible Persons: Mrs. Alba Arroyo, Interim Director Mrs. Judith Meléndez, Accountant Head Start Program</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-003
Program	Head Start (CFDA. No. 93.600), U.S. Department of Health and Human Services; Pass through the P.R. Department of Family – Administration for the Care and Integral Development of Children (ACUDEN)
Requirement	Reporting – Financial Administration (MW)
Statement of Condition	In our Reporting Test, we could not trace the amounts reported in the monthly requests for funds submitted to the passthrough agency to the Program's accounting records since the Municipality does not maintain a program general ledger. Also, when we compared the total accumulative amount reported as federal expenditures in the monthly requests for funds with the amounts reported in the annual closing report and the Federal Financial Report SF-425 none of the amounts reported matched.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	Adequate internal controls do not exist to ensure the correctness of the monthly quarterly and annual reports submitted to the passthrough agency.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	We recommend the Program establishes monitoring procedures to ensure the accuracy and completeness of accounting records and correct preparation and submission of the monthly, quarterly and annual financial reports.
Questioned Costs	None
Management Response and Corrective Action	<p>During the 2014-2015 year, the Agency did not have the proper tools to record the Program's financial information and was forced to gather it in Excel worksheets. This included the General Ledger. Since the beginning of the new fiscal year, all financial data is being recorded digitally in the SIMA (Municipality) and Abila (Federal) accounting systems.</p> <p>Implementation Date: During the 2015-2016 fiscal year</p> <p>Responsible Persons: Mrs. Alba Arroyo, Interim Director Mrs. Judith Meléndez, Accountant Head Start Program</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-004
Program	Supportive Housing Program (CFDA. No. 14.235) U.S. Department of Housing and Urban Development
Requirement	Equipment and Real Property Management
Statement of Condition	During our Equipment and Real Property Management test, we found that the Inventory Listing did not contain the information related to acquisition cost, acquisition date and percentage of federal participation in cost.
Criteria	Subpart C, 45 CFR 92.32 (d) (1) and (d) (2) states that property records must include a description of the property, serial number or other identification number, the source of the property, percentage of federal participation in the property, the location, use and condition of the property, any ultimate disposition data including the date of the disposal and sale price of the property. Also, a physical inventory of the property must be taken at least once every two years and the result reconciled with the property records.
Cause of Condition	Adequate internal controls do not exist to ensure that complete property records are maintained. Also, the Municipality's personnel has not been instructed regarding the correct equipment management procedures necessary for the accurate recording of the fixed assets purchased with federal funds.
Effect of Condition	The Program is not in compliance with Subpart C, 45 CFR 92.32 (d) (1) and (d) (2).
Recommendation	We recommend that the Municipality establishes control procedures in order to ensure the proper valuation and timeliness of recognition of property and equipment in the Program's Inventory Listing in a manner that it provides updated and complete financial information.
Questioned Costs	None
Management Response and Corrective Action	<p>We concur with the auditor's recommendation. We have implemented a table that is used in other federal programs which allows us to identify the product, serial number, price, date of purchase, purchase order number among others.</p> <p>Implementation Date: During 2015-2015 fiscal year</p> <p>Responsible Person: Mr. Carlos Larroy, Federal Programs Office Director</p>

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-005
Program	Supportive Housing Program (CFDA. No. 14.235) U.S. Department of Housing and Urban Development
Requirement	Accounting Records (MW)
Statement of Condition	During our audit, we noted that the Program did not maintain an adequate set of accounting records for the Supportive Housing Program to fairly present the financial position of the program and the results of its operations. No general ledger was prepared for the recording of the Program’s programmatic and administrative expenditures. The financial information reported in the annual financial reported is based on accounting information compiled from different sources and not from a complete set of accounting records.
Criteria	24 CFR Part 583 Subpart D Section 583.300 – <i>General Operation (g) Records and reports</i> states that each recipient of assistance under this part must keep any records and make any reports (including those pertaining to race, ethnicity, gender, and disability status data) that HUD may require within the timeframe required.
Cause of Condition	Adequate internal controls and proper monitoring procedures do not exist to ensure the maintenance of a complete set of accounting records as required by the Program’s regulations and grant agreement.
Effect of Condition	The Program is not in compliance with 24 CFR Part 583 Subpart D Section 583.300 – <i>General Operation</i> , item (g).
Recommendation	Management should take necessary steps to establish and maintaining proper internal controls and periodic monitoring procedures to ensure the correct recognition of the Program’s financial and budgetary transactions in a complete set of accounting records, using the double-entry system.
Questioned Costs	None
Management Response and Corrective Action	We concur with the auditors’ recommendation. There exists a subsidiary of transactions (income and expenses), it began to incorporate to a report of budget and funding request. This will be verified by the accounting assistant to realize the double entry data. Implementation Date: During the 2015-2016 fiscal year Responsible Person: Mr. Carlos Larroy, Federal Programs Office Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-006
Program	Supportive Housing Program (CFDA. No. 14.235) U.S. Department of Housing and Urban Development
Requirement	Reporting – Financial Administration (MW)
Statement of Condition	In our Reporting Test, we could not trace the amounts reported in the annual financial report to the Program’s accounting records since the Municipality does not maintain a general ledger. The employee in charge of the preparation and submission of the financial report compiles the information from different sources and subsidiary details that present the accounting information in a format that does not allow the proper tracing and verification of the amounts been reported as federal expenditures and in-kind contributions.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	Adequate internal controls do not exist to ensure the correctness of the annual financial report submitted to the federal agency.
Effect of Condition	The Program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	We recommend the Program establishes internal control procedures to ensure the accuracy and completeness of accounting records and correct preparation and submission of the annual financial reports.
Questioned Costs	None
Management Response and Corrective Action	We concur with the auditor’s recommendation. Financial reports were consolidated to have updated data. (Subsidiary, Request of Funds and Budget).

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Mr. Carlos Larroy, Federal Programs Office Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-007
Program	Supportive Housing Program (CFDA. No. 14.235) U.S. Department of Housing and Urban Development
Requirement	Matching and Earmarking
Statement of Condition	<p>In our Matching Test, we could not verify compliance with the requirements that no more than 75 percent of the total cost in each year of the grant be paid with federal funds and that all funding for supportive services must be matched by 25 percent funding from a non-Federal entity. In addition, in our Earmarking Test, we could not verify compliance with the requirement that no more than 5 percent of the grant awarded be used for paying the costs of administering the assistance.</p> <p>As described in Finding 2015-006, the Municipality does not maintain adequate accounting records to support the amounts reported as federal expenditures and in-kind contributions. The employee in charge of the preparation and submission of the financial reports calculates the 25 percent matching with non-Federal funds based on the financial information detailed in the Program’s annual proposal and not on actual amounts incurred. Also, the Program’s accounting information is compiled in subsidiary details with no proper identification of programmatic and administrative expenditures in order to determine if the Program complies with the 5 percent of administrative expenditures requirement.</p>
Criteria	<p>24 CFR Part 583 Subpart B Section 125 <i>Grants for operating costs, (c) Recipient match requirement for operating costs</i> states that Assistance for operating costs will be available for up to 75 percent of the total cost in each year of the grant term. The recipient must pay the percentage of the actual operating costs not funded by HUD. At the end of each operating year, the recipient must demonstrate that it has met its match requirement of the costs for that year.</p> <p>24 CFR 583 Subpart B Section 135 <i>Administrative costs (a) General</i>, states that up to five percent of any grant awarded under this part may be used for the purpose of paying costs of administering the assistance.</p>
Cause of Condition	Adequate internal controls and proper monitoring procedures do not exist to ensure the maintenance of a complete set of accounting records as required by the Program’s regulations and grant agreement.
Effect of Condition	The Program is not in compliance with 24 CFR Part 583 Subpart B Section 583.125 and 135.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2015-007 (Continued)**

Recommendation Management should take necessary steps to establish and maintaining proper internal controls and periodic monitoring procedures to ensure the correct recognition of the Program's financial and budgetary transactions in a complete set of accounting records, using the double-entry system, which provides accurate and verifiable information regarding programmatic and administrative expenditures and adequate record keeping and identification of federal expenditures and in-kind contributions.

Questioned Costs None

**Management Response
and Corrective Action** We concur with the auditor's recommendation. Corrective measures regarding this issue were taken obtaining accurate disbursement records of the federal and local share using a Disbursement Log.

Implementation Date: During the 2015-2016 fiscal year

Responsible Person: Mr. Carlos Larroy, Federal Programs Office Director

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
14-002	10.558	<p><u>During our audit, we identified that the Municipality submitted the semiannual financial management report for the six-month period ended on March 31, 2014, on May 1, 2014, a delay of sixteen (16) days with the state agency's due date requirement of April 15, 2014. The other semiannual report for the six-month period ended on September 30, 2014, due on October 15, 2014, was submitted on November 5, 2014, a delay of twenty-one (21) days. Finally, the annual closing report, due on January 15, 2015, was submitted on February 12, 2015.</u></p> <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>
2014-003	20.507	<p><u>During our audit procedures, we detected that the Program's accounting records do not adequately report the federal and local share expenditures in accordance with the eighty-twenty (80%-20%) matching requirement established for the Program. Therefore, the financial information reported in the quarterly Financial Reports does not correctly present the Program's operating transactions.</u></p> <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>
2014-004	93.600	<p><u>The Municipality is not in compliance with the requirement of contributing at least twenty percent (20%) of cost of the program through cash or in kind contributions. Based on the annual settlement of program funds report submitted to the pass through agency, the Municipality only contributed nineteen percent (19%) in cash and in-kind contributions for the program year 2014.</u></p> <p>Corrective action was taken. A similar situation was not identified during fiscal year ended June 30, 2015.</p>

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2014-005	93.600	<p><u>During our audit, we noted that the Program did not maintain an adequate set of accounting records for the Head Start Program to fairly present the financial position of the program and results of its operations. No general ledger was prepared for the recording of the Program's programmatic and administrative expenditures. The financial information reported in the monthly request for funds is based on accounting information compiled from different sources and not from a complete set of accounting records.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-002.</p>
2014-006	93.600	<p><u>In our Reporting Test, we could not trace the amounts reported in the monthly Financial Reports to the Program's accounting records since the Municipality does not maintain a general ledger. As an alternate procedure, we compared the amounts reported as federal expenditures in the monthly Financial Reports and the amounts detailed in the supporting accounting documentation used for the preparation of these reports and there were significant differences between the amounts reported and the ones detailed in such documentation.</u></p> <p>No corrective action was taken. The auditors reissued the finding for the current year. Finding Reference 2015-003.</p>