

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

**MUNICIPIO DE YABUCOA
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF YABUCOA**

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

Year Ended June 30, 2015



Municipality of Yabucoa, PO Box 97 Yabucoa P.R. 00767-0097
Hon. Rafael Surillo Ruíz

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- American Institute of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic 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 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	Adverse
General Fund	Qualified
Capital Projects Fund	Qualified
Debt Service Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Adverse of Opinion on the 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.

Due to the inappropriateness of the Municipality's accounting records over fixed assets, we were unable to obtain adequate audit evidence regarding the amounts at which capital assets, accumulated depreciation and net investment in capital assets, are recorded in the accompanying statement of net position at June 30, 2015, stated at \$75,609,714, \$27,240,686 and \$31,752,428.

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



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Finally, the Municipality did not comply with the requirements established by Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", issued by the Governmental Accounting Standards Board and the regulations set forth by the U.S. Environmental Protection Agency (EPA). At June 30, 2015, the accompanying statement of net position presents a liability for post-closure care costs of the Municipality's solid waste landfill of \$3,563,314. However, this estimate has not been made based on a study in conformity with the regulatory requirements established by the EPA "Solid Waste Disposal Facility Criteria". The amount by which departure would affect the liabilities, net position and expenses of the governmental activities is not reasonably determinable.

As a result of these matters, we were unable to determine whether any audit adjustments might have been found necessary in respect of net pension liability, deferred inflows/outflows related to pensions, recorded or unrecorded capital assets and liability for post-closure care costs and the elements making up the Statement of Net Position and Statement of Activities.

Adverse of Opinion – Governmental Activities

In our opinion, because of the significance of the matters described in the *Basis for Adverse Opinion on the Governmental Activities* paragraphs, the financial statements referred to above do not present fairly the financial position of the governmental activities of the **Municipality of Yabucoa, Puerto Rico**, as of June 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Government Funds

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. We were unable to obtain sufficient evidence to support and satisfy ourselves about the amounts recorded as interfund due to/due from in total the amount of \$1,723,308 reported the balance sheet of the governmental funds at June 30, 2015.

Qualified Opinion - Governmental Funds

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Government Funds" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund, the capital projects fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal 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 financial position of the debt service fund of the **Municipality of Yabucoa**, Puerto Rico, as of June 30, 2015, and the change 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 and budgetary comparison information on pages **6** through **12** and **52** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Yabucoa's** basic financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **54** and **55** 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 Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is 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 23, 2016, on our consideration of **Municipality of Yabucoa's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Yabucoa's** internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 23, 2016

Stamp No. 2705503 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

The management of **Municipality of Yabucoa**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

The new reporting model required by Governmental Accounting Standards Board Statement No. 34 was implemented during fiscal 2003-2004. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

- ❖ a broader basis in focusing important issues;
- ❖ acknowledgement of an overview of the Municipality's financial activities;
- ❖ provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
- ❖ identification of uses of funds in the financing of the Municipality's variety of activities and;
- ❖ assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2015 by \$20,907,278, and at June 30, 2014 by \$20,327,945, as restated.
- ❖ The Municipality's total net position increase by \$579,333 during fiscal year 2014-2015.
- ❖ As of June 30, 2015, the Municipality's governmental funds reported combined ending fund balances of \$1,515,361, an increase of \$2,086,610 from the prior year.
- ❖ At June 30, 2015, the unrestricted deficit was \$18,683,336.
- ❖ The Municipality's capital assets inventory increased as a result of this year's operations. Capital assets net of depreciation as of June 30, 2015 was \$48,369,028.
- ❖ The investment in capital assets for this year was \$868,993.
- ❖ Loans principal payments were \$1,042,500 and \$1,044,200 in 2015 and 2014, respectively.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The Statement of Net Position presents information on all of the Municipality's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and sanitation, solid waste disposal, human services and welfare, urban development and education. Property taxes, municipal license tax, state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified-accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

OTHER INFORMATION

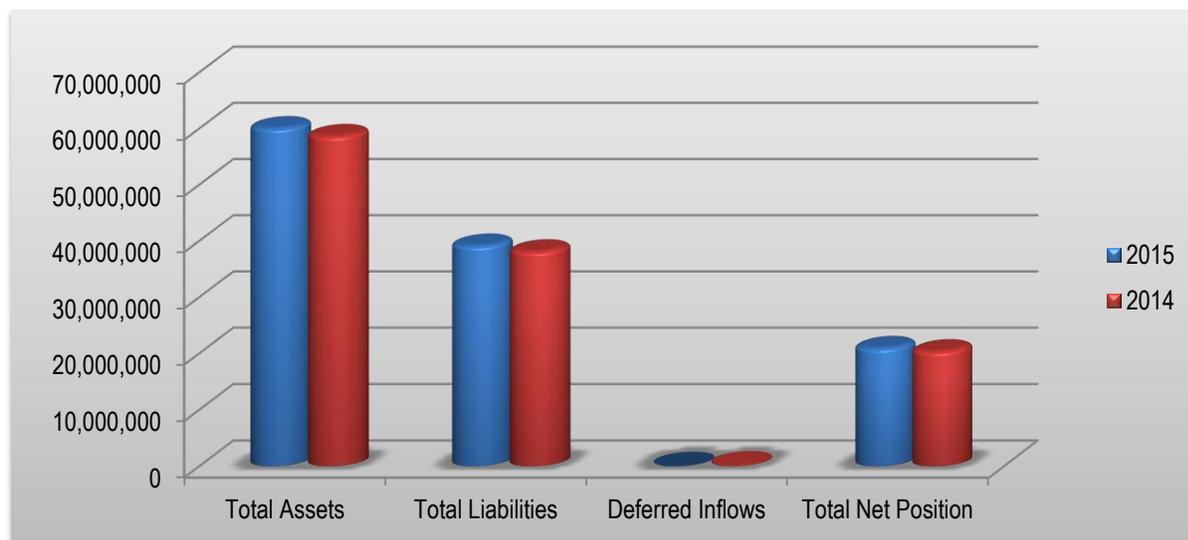
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

GOVERNMENTAL NET POSITION

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Municipality, net position exceeded liabilities by \$20,907,278 as of June 30, 2015 versus \$20,327,945 as of June 30, 2014, as restated. Our analysis below focuses on the net position (**Table 1**) and changes in net position of the Municipality's governmental activities.

Table 1 Statements of Net Position	2015	2014, as restated	Change	%
Current and non-current assets	\$ 11,666,119	\$ 10,890,212	\$ 775,907	7%
Capital assets	48,369,028	47,742,305	626,723	1%
Total Assets	60,035,147	58,632,517	1,402,630	2%
Current liabilities	9,707,999	9,715,475	(7,476)	0%
Long-term liabilities	29,419,870	28,387,366	1,032,504	4%
Total Liabilities	39,127,869	38,102,841	1,025,028	3%
Deferred Inflows of Resources	-	201,731	(201,731)	-100%
Net position:				
Net investment in capital assets	31,752,428	33,759,205	(2,006,777)	-6%
Restricted	7,838,186	6,615,546	1,222,640	18%
Unrestricted deficit	(18,683,336)	(20,046,806)	1,363,470	-7%
Total Net Position	\$ 20,907,278	\$ 20,327,945	\$ 579,333	3%



GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The largest portion of the Municipality's net position reflects its investment in capital assets (e.g. land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position represents resources that are subject to external restrictions on how they may be used.

Total net position of the Municipality's governmental activities were \$20,907,278, an increase of \$579,333 from prior year, as restated. The unrestricted deficit was \$18,683,336 at June 30, 2015.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the Municipality's net position. Key elements of this increase are as follows: the Municipality's governmental activities had net expenses of \$16,143,097. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues covered net expenses and there was a net change of \$579,333. In addition, 2015 revenues decreased \$3,765,979 in comparison with 2014 revenues. On the other hand expenses were \$492,273 less when compared to 2014 expenses.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

GOVERNMENTAL ACTIVITIES (CONTINUED)

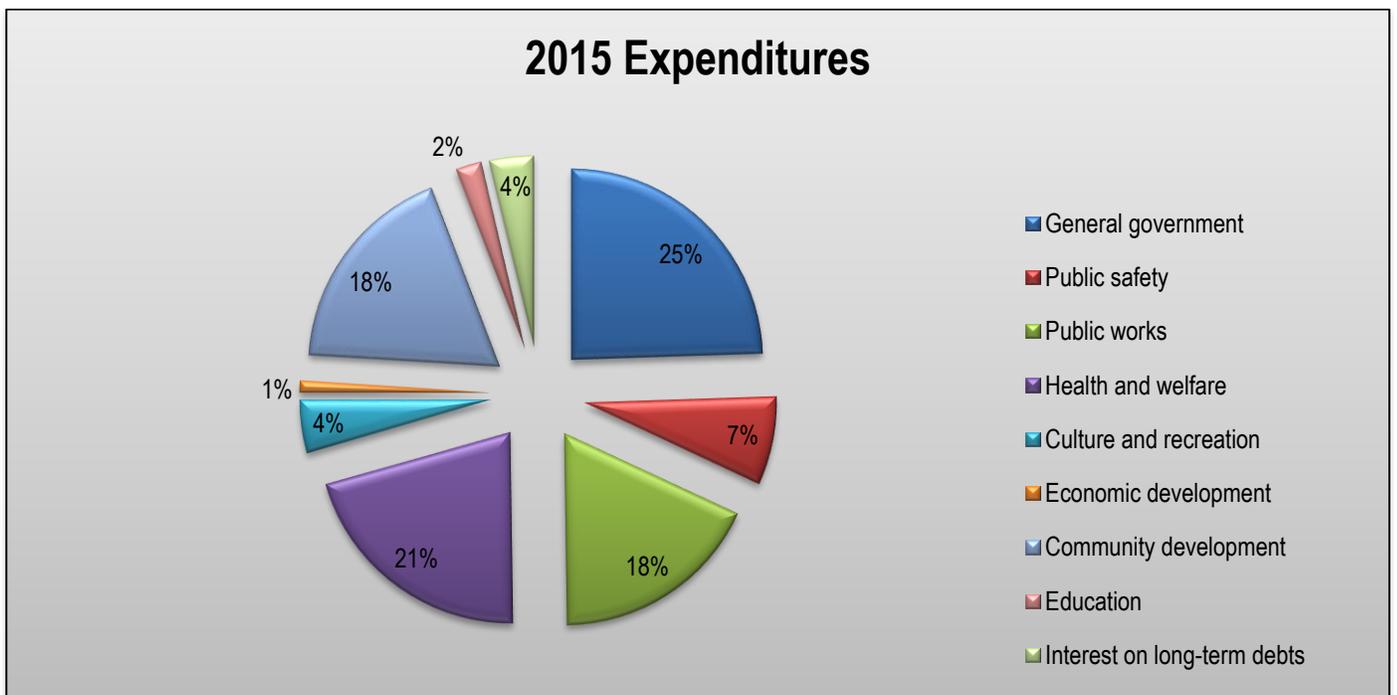
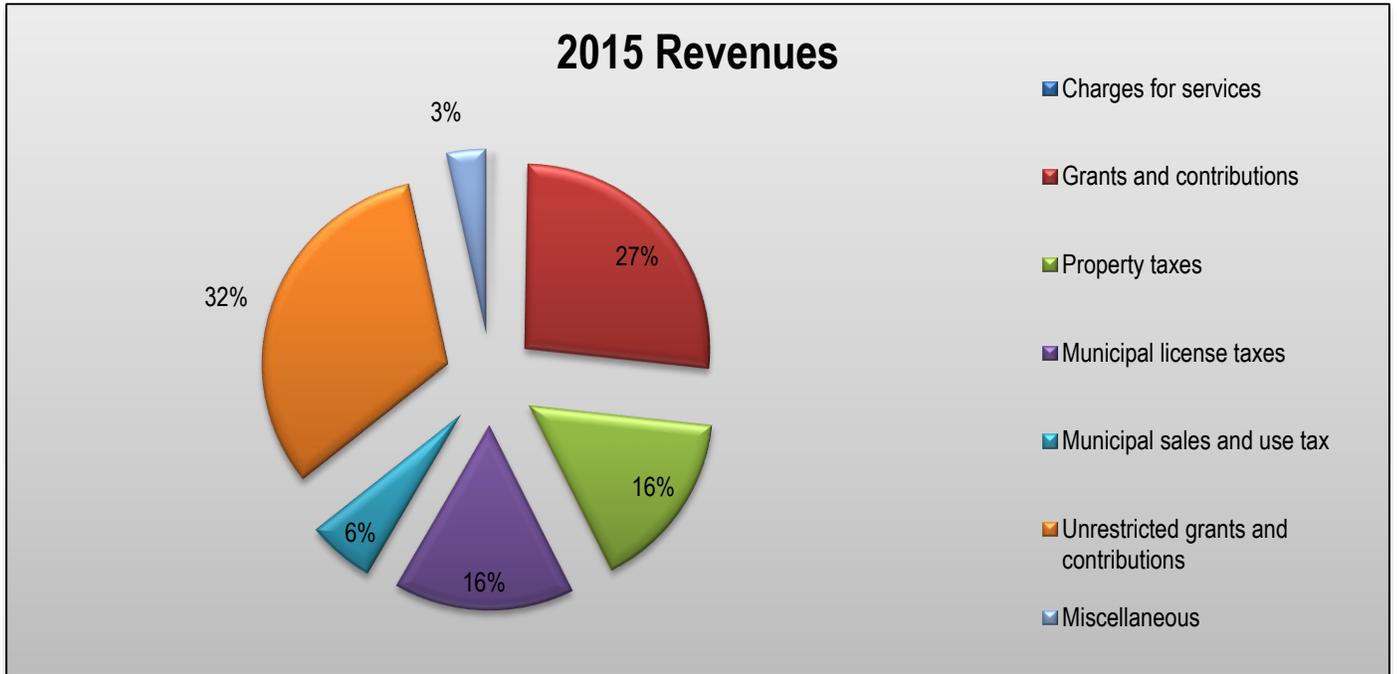
Table 2 presents the cost of each of the Municipality's largest programs.

Table 2				
Statement of Activities	2015	2014, as restated	Change	%
Revenues				
Charges for services	\$ 59,921	\$ 57,836	\$ 2,085	4%
Grants and contributions	6,038,691	5,810,161	228,530	4%
General revenues:				
Property taxes	3,616,773	4,168,230	(551,457)	-13%
Municipal license taxes	3,606,384	4,082,215	(475,831)	-12%
Municipal sales and use tax	1,340,141	1,453,040	(112,899)	-8%
Unrestricted grants and contributions	7,381,890	10,636,991	(3,255,101)	-31%
Miscellaneous	777,242	378,548	398,694	105%
Total revenues	<u>22,821,042</u>	<u>26,587,021</u>	<u>(3,765,979)</u>	-14%
Expenses				
General government	5,446,351	10,853,594	(5,407,243)	-50%
Public safety	1,644,528	1,531,240	113,288	7%
Public works	3,978,762	3,720,389	258,373	7%
Health and welfare	4,633,676	4,242,529	391,147	9%
Culture and recreation	979,938	701,137	278,801	40%
Economic development	208,505	168,042	40,463	24%
Community development	4,049,397	209,843	3,839,554	1830%
Education	489,011	609,010	(119,999)	-20%
Interest on long-term debts	811,541	698,198	113,343	16%
Total expenses	<u>22,241,709</u>	<u>22,733,982</u>	<u>(492,273)</u>	-2%
Changes in net position	579,333	3,853,039	(3,273,706)	-85%
Net position – beginning, as restated	<u>20,327,945</u>	<u>16,474,906</u>	<u>3,853,039</u>	23%
Net position – ending	<u>\$ 20,907,278</u>	<u>\$ 20,327,945</u>	<u>\$ 579,333</u>	3%

GOVERNMENT FUND FINANCIAL ANALYSIS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)



GOVERNMENT FUND FINANCIAL ANALYSIS (CONTINUED)

Table 3		
Balance Sheet	2015	2014, as restated
Assets:		
Total assets – Major Funds	\$ 10,093,669	\$ 7,188,719
Total assets – Other Funds	<u>3,295,758</u>	<u>5,197,952</u>
Combined total assets	<u>13,389,427</u>	<u>12,386,671</u>
Liabilities:		
Total liabilities – Major Funds	9,455,223	8,607,110
Total liabilities – Other Funds	<u>1,569,232</u>	<u>2,307,809</u>
Combined total liabilities	<u>11,024,455</u>	<u>10,914,919</u>
Deferred Inflows of Resources:		
Total Deferred Inflows – Major Funds	849,611	1,841,270
Total Deferred Inflows – Other Funds	<u>-</u>	<u>201,731</u>
Combined total deferred inflows of resources	<u>849,611</u>	<u>2,043,001</u>
Fund Balances (Deficit):		
Restricted	8,245,038	6,912,561
Unassigned	<u>(6,729,677)</u>	<u>(7,483,810)</u>
Combined total fund balances	<u>1,515,361</u>	<u>(571,249)</u>
Total liabilities and fund balances	\$ 13,389,427	\$ 12,386,671

Table 4		
Changes in Fund Balances	2015	2014, as restated
Revenues:		
Total revenues – Major Funds	\$ 17,714,089	\$ 19,799,905
Total revenues – Other Funds	<u>6,098,612</u>	<u>5,864,482</u>
Combined total revenues	<u>23,812,701</u>	<u>25,664,387</u>
Expenditures:		
Total expenditures – Major Funds	17,726,586	20,900,906
Total expenditures – Other Funds	<u>6,530,891</u>	<u>5,189,977</u>
Combined total expenditures	<u>24,257,477</u>	<u>26,090,883</u>
Excess of expenditure over revenue	<u>(444,776)</u>	<u>(426,496)</u>
Other financing sources (uses):		
Proceed from issuance of bonds	3,501,000	1,870,000
Payment of long-term debt- P.R.E.P.A.	(969,614)	-
Transfer – In	1,373,048	1,067,754
Transfer – Out	<u>(1,373,048)</u>	<u>(1,067,754)</u>
Combined other financing sources (uses), net	<u>2,531,386</u>	<u>1,870,000</u>
Net changes in fund balance	2,086,610	1,443,504
Fund Balance (deficit)– beginning	<u>(571,249)</u>	<u>(2,014,753)</u>
Fund Balance (deficit) – ending	\$ 1,515,361	\$ (571,249)

GOVERNMENTAL FUNDS

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of its fiscal year. At June 30, 2015, the Municipality's governmental funds reported combined ending fund balances of \$1,515,361, an increase of \$2,086,610 from the prior year, as restated.

The Municipality has an unassigned fund deficit of \$(6,575,930) in its General Fund. The remainder of the balance is restricted to indicate that it is not available for new spending because it has already been segregated; (a) to pay debt service (\$2,907,691) and (b) for other restricted purposes (\$5,337,348).

BUDGETARY HIGHLIGHTS

Budget and actual comparison schedule is provided in the Basic Financial Statements for the General Fund. The Budgetary Comparison Schedule of the General Fund shows the original adopted budget, the final revised budget, actual results, and variance between the final budget and actual results for the general fund.

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances and other unanticipated revenues. Differences between the original 2015 budget and the final amended budget for the General Fund were relatively minor and can be summarized as follows:

- ❖ The original budget was amended for transfers between expenditures accounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2015 amounted to \$48,369,028 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, highways, and bridges. The total net increase in the Municipality's investment in capital assets for the current fiscal year was \$626,723. Additions during the fiscal year were principally for building improvements, purchase of new vehicles and machinery and equipment, necessary to provides services to our citizens. **Table 5** present the major classes of capital assets.

Table 5	
Capital Assets	Amount
Construction in progress	\$ 1,073,261
Land	8,079,803
Depreciable capital assets, net	<u>39,215,964</u>
Total capital assets, net	<u>\$ 48,369,028</u>

LONG-TERM DEBT

At June 30, 2015 the Municipality had a total of \$29,419,870 in general obligations and other outstanding debts, as shown in **Table 6**. Of this amount, \$20,786,600 comprises debt backed by the full faith and credit of the government and \$8,633,270 are composed of other obligations.

Table 6	
Long-term debt	Amount
General obligations	\$ 20,786,600
Others	<u>8,633,270</u>
Total long term debts	<u>\$ 29,419,870</u>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave and advances of property taxes. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and effective debt financing programs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Local, national and international economic factors influence the Municipality's revenues. Positive economic growth is correlated with increased revenues from property taxes, volume of business taxes, sales taxes, charges for services, as well as state and federal grants. Economic growth in the local economy may be measured by a variety of indicators such as employment growth, unemployment, new construction, assessed valuation, and other revenues.

All of these factors were considered in preparing the Municipality's budget for the 2015 fiscal year. Some cost reductions helped fund improvements of existing facilities, public safety and works, economic development initiatives and human service improvements.

FINAL COMMENTS

The Municipality is an autonomous governmental entity whose powers and authority vested on its Executive and Legislative Branches are specifically established in the Municipal Autonomous Act approved in August 1991. By virtue of such powers, it provides a wide range of services to its constituents which includes, among others, public works, education, public safety, public housing, health, community development, recreation, waste disposal, welfare and others. The Municipality's principal sources of revenues are derived from property taxes, municipal license taxes, subsidies from the Commonwealth of Puerto Rico's General Fund and contributions from the Traditional and Electronic Lottery sponsored by said Government.

The Municipality's management is committed to a continued improvement in the confection of a budget that will respond to the needs of the public and private sectors in accordance with its permissible revenue levels. It further contemplates to maintain or improve its current levels of Net Position as indicative of a strong financial position which has been identified as one of the main short and long-term objectives of the Municipality.

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).

FINAL COMMENTS (CONTINUED)

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 Yabucoa 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.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all those with an interest in the government's finances. For questions concerning any of the information provided in this report or requests for additional information, please contact the Municipality's Finance Department at (787) 893-3000.

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,718,959
Cash with fiscal agents	6,210,889
Accounts receivable:	
Property taxes	163,381
Municipal sales and use tax	68,410
Commonwealth Government	1,038,288
Federal grants	432,934
Others	33,258
Capital assets	
Land, improvements, and construction in progress	75,609,714
Other capital assets, net of depreciation	(27,240,686)
Total capital assets	<u>48,369,028</u>
Total assets	<u><u>60,035,147</u></u>
Liabilities	
Accounts payable and accrued liabilities	5,086,244
Due to Commonwealth Government	222,171
Unearned revenues:	
Municipal license tax	3,292,091
Federal grants	700,641
Interest payable	406,852
Noncurrent liabilities:	
Due within one year	2,372,594
Due in more than one year	27,047,276
Total liabilities	<u><u>39,127,869</u></u>
Net position	
Net investment in capital assets	31,752,428
Restricted for:	
Capital projects	3,457,074
Other purposes	4,381,112
Unrestricted (deficit)	(18,683,336)
Total net position	<u><u>\$ 20,907,278</u></u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	\$ 5,446,351	\$ 2,276	\$ 353,180	\$ -	\$ (5,090,895)
Public safety	1,644,528	-	127,980	-	(1,516,548)
Public works	3,978,762	3,705	-	1,096,027	(2,879,030)
Health and welfare	4,633,676	44,655	1,841,790	-	(2,747,231)
Culture and recreation	979,938	-	186,876	-	(793,062)
Economic development	208,505	-	-	-	(208,505)
Community development	4,049,397	-	-	2,156,649	(1,892,748)
Education	489,011	9,285	276,189	-	(203,537)
Interest on long-term debt	811,541	-	-	-	(811,541)
Total governmental activities	\$ 22,241,709	\$ 59,921	\$ 2,786,015	\$ 3,252,676	(16,143,097)
General revenues:					
Property taxes					3,616,773
Municipal license tax					3,606,384
Municipal sales and use tax					1,340,141
Grants and contributions not restricted to specific programs					7,381,890
Miscellaneous					777,242
Total general revenues					16,722,430
Change in net position					579,333
Net position - beginning, as restated					20,327,945
Net position - ending					\$ 20,907,278

	General Fund	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,421,077	\$ 596,742	\$ -	\$ 1,701,140	\$ 3,718,959
Cash with fiscal agents	69,274	3,347,750	2,793,865	-	6,210,889
Accounts receivable:					
Property taxes	49,555	-	113,826	-	163,381
Municipal sales and use tax	68,410	-	-	-	68,410
Others	33,258	-	-	-	33,258
Due from					
Commonwealth government	919,084	-	-	119,204	1,038,288
Federal Government	-	-	-	432,934	432,934
Other funds	680,828	-	-	1,042,480	1,723,308
Total assets	\$ 3,241,486	\$ 3,944,492	\$ 2,907,691	\$ 3,295,758	\$ 13,389,427
Liabilities, Deferred Inflows of Resources and Fund balances (deficit)					
Accounts payable and accrued liabilities	\$ 4,411,063	\$ 351,201	\$ -	\$ 323,980	\$ 5,086,244
Due to:					
Commonwealth government	222,171	-	-	-	222,171
Other funds	1,042,480	136,217	-	544,611	1,723,308
Unearned revenues:					
Municipal license tax	3,292,091	-	-	-	3,292,091
Federal grants	-	-	-	700,641	700,641
Total liabilities	8,967,805	487,418	-	1,569,232	11,024,455
Deferred Inflows of Resources					
Unavailable revenues:					
Property taxes	49,555	-	-	-	49,555
Commonwealth Government	800,056	-	-	-	800,056
Total Deferred Inflows of Resources	849,611	-	-	-	849,611
Fund balances (deficit):					
Restricted	153,747	3,457,074	2,907,691	1,726,526	8,245,038
Unassigned	(6,729,677)	-	-	-	(6,729,677)
Total fund balances (deficit)	(6,575,930)	3,457,074	2,907,691	1,726,526	1,515,361
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 3,241,486	\$ 3,944,492	\$ 2,907,691	\$ 3,295,758	\$ 13,389,427

	General Fund	Capital Projects Fund - State & Local Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 2,264,506	\$ -	\$ 1,333,232	\$ -	\$ 3,597,738
Municipal license taxes	3,606,384	-	-	-	3,606,384
Municipal sales and use tax	856,900	-	483,241	-	1,340,141
Licenses, permits and other local taxes	313,590	-	-	-	313,590
Intergovernmental	8,392,584	-	-	2,967,885	11,360,469
Rent of property	61,109	-	-	-	61,109
Interest	165,377	-	-	2,749	168,126
Federal grants	-	-	-	3,025,158	3,025,158
Charges of services	-	-	-	59,921	59,921
Miscellaneous	237,166	-	-	42,899	280,065
Total revenues	15,897,616	-	1,816,473	6,098,612	23,812,701
Expenditures					
Current:					
General government	6,497,347	-	-	235,690	6,733,037
Public safety	1,463,019	-	-	162,405	1,625,424
Public works	2,750,696	55,230	-	1,007,592	3,813,518
Health and welfare	2,874,919	-	-	1,758,757	4,633,676
Culture and recreation	753,311	-	-	207,394	960,705
Economic development	-	-	-	208,505	208,505
Community development	31,092	1,150,053	-	2,868,252	4,049,397
Education	406,715	-	-	82,296	489,011
Debt service:					
Principal	-	-	1,042,500	-	1,042,500
Interest	-	-	701,704	-	701,704
Total expenditures	14,777,099	1,205,283	1,744,204	6,530,891	24,257,477
Excess (deficiency) of revenues over (under) expenditures	1,120,517	(1,205,283)	72,269	(432,279)	(444,776)
Other financing sources (uses)					
Proceed from bond issuance	-	3,501,000	-	-	3,501,000
Payment of long-term debt- P.R.E.P.A.	(969,614)	-	-	-	(969,614)
Transfers in	995,947	-	328,847	48,254	1,373,048
Transfers out	(377,101)	-	(418,086)	(577,861)	(1,373,048)
Total other financing sources (uses)	(350,768)	3,501,000	(89,239)	(529,607)	2,531,386
Net change in fund balances (deficit)	769,749	2,295,717	(16,970)	(961,886)	2,086,610
Fund balance (deficit), beginning, as restated	(7,345,679)	1,161,357	2,924,661	2,688,412	(571,249)
Fund balance (deficit), ending	\$ (6,575,930)	\$ 3,457,074	\$ 2,907,691	\$ 1,726,526	\$ 1,515,361

Total Fund Balances - Governmental Funds \$ 1,515,361

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

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

Capital assets	\$ 75,609,714	
Accumulated depreciation	(27,240,686)	
Total Capital Assets		48,369,028

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

Due from Commonwealth Government:		
P.R. Electric Power Authority (PREPA)	723,856	
Christmas bonus reimbursement	76,200	
CRIM - Property Taxes	49,555	
Total Deferred Inflows of Resources		849,611

Interest liabilities not due and payable in the current period and, therefore, are not reported in the funds

(406,852)

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 payable	(20,786,600)	
Note payable to CRIM-Public Act No. 42	(464,580)	
Note payable to CRIM-Public Act No. 146	(145,183)	
U.S. Department of Rural Development	(69,954)	
Compensated absences	(1,562,846)	
Post-closure care costs	(3,563,314)	
Note payable to PR Department of Labor - unemployment tax	(25,780)	
Claims and judgments	(1,488,022)	
Note payable to P.R. Aqueduct and Sewer Authority (PRASA)	(193,887)	
Note payable to P.R. Department of Treasury	(231,789)	
Christmas bonus	(164,059)	
Payable to PR Electric Power Authority (PREPA)	(723,856)	
Total long-term liabilities		(29,419,870)

Total Net Position of Governmental Activities \$ 20,907,278

Net Change in Fund Balances - Total Governmental Funds	\$ 2,086,610
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, these amounts are recognized as capital asset additions. This is the amount of capital assets recorded in the current period.	868,993
Depreciation expense on capital assets is reported in the Government-Wide Statements of Activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the Governmental Funds.	(242,270)
Revenue in the Statement of Activities that does not provide current financial resources and, therefore are not reported as revenues in the funds.	125,755
Revenue in the Governmental Funds that corresponds to the prior year resources that were recorded as revenues last year's in the Statement of Activities.	(1,117,414)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, interest expense was not reported as expenditure in Governmental Funds. The following amount represented the net change in accrued interest from prior year.	(109,837)
Bonds and notes proceeds are recognized as other financing sources in the Governmental Funds, but are recognized as increases in long-term liabilities in the Government-Wide Statement of Net Position.	(3,501,000)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:	
General obligation bonds and notes	1,042,500
Other long-term liabilities	1,425,996
	<hr/>
Change in net position of Governmental Activities	<u>\$ 579,333</u>

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Yabucoa** (the Municipality) is a local municipal government constituted in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act. 81 of August 30, 1991, as amended, known as the Autonomous Municipalities Act of the Commonwealth of Puerto Rico (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

The Commonwealth's Constitution provides for the separation of powers of the executive legislative and judicial branches of the Commonwealth and the municipalities. However, the Municipality's governmental system consists of executive and legislative branches only. A Mayor, elected every four years by the citizens, exercises the executive power of the Municipality. The Municipal Legislature, whose members are also elected every four years, exercises the legislative power of the Municipality. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

The Municipality assumes either partial or full responsibility for providing services to its citizens related to public housing, welfare, public safety, health, sanitation, education, culture recreation, urban development, economic development and many other fiscal, general and administrative services.

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

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "*Basic Financial Statements and Management's and Discussion and Analysis for State and Local Governments.*" This Statement, known as the Reporting Model, provides for the most significant change in financial reporting for state and local governments in over 20 years and affects the way the Municipality prepares and presents financial information. In addition to this Statement, GASB Statement No. 37, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*" and GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*" have been adopted and are reflected in these financial statements.

As part of this Statement, there is a reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement allows an optional four-year delay for implementation to fiscal year ended on June 30, 2007. The Municipality elected to implement the retroactive capitalization of infrastructure assets.

In March 2009, the Municipality adopted the provisions of GASB Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB No. 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB No. 56).

GASB No. 55 incorporated the hierarchy of USGAAP for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all USGAAP for state and local governments so that they derive from a single source.

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

GASB No. 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes accounting principles for related party transactions, going concern considerations, and subsequent events.

On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB No. 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types were also modified for clarity and consistency.

The provisions of the GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of Statements No. 14 and 34*, were considered in the evaluation of the potential component units. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government under certain circumstances.

The GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in FASB pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

In current year, the Municipality adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and the Net Position* establishing a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Municipality's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position".

The following is a summary of the significant accounting policies of the Municipality:

A. Component units

In evaluating how to define the Municipality for financial reporting purposes, Management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the provisions of GSB Statement No. 14, as amended. The basic, but not the only criterion, for including a potential component unit within the reporting entity is if a primary government is financially accountable for the entity. Financial accountability exists if the primary governmental appoints a voting majority of the entity's governing body, and if either one of the following conditions exist: the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such

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

that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. Based on the above criteria, the Municipality does not have component units to include within its reporting entity.

B. Government-wide and fund financial statements

Financial information of the Municipality is presented in this report as follows:

1. Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.
2. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the activities of the Municipality and its component units, if any. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, if any, which rely to a significant extent on fees and charges for services for support. Interfund activity has been removed from these statements to minimize the duplicating effect on assets and liabilities within the governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Program revenues consist of charges to citizens or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

3. Fund financial statements focus on information about the Municipality's major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Pursuant to the provisions set forth by GASB No. 54, the Municipality reported the following governmental funds in the accompanying governmental funds financial statements:

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.

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

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

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

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

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

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar internal funds have been combined into single funds in the accompanying fund financial statements.

4. The notes to the financial statements provide information that is essential to a user's understanding of the basic financial statements.
5. Required Supplementary Information such as the budgetary comparison schedule-general fund and other types of data required by GASB.
6. Notes to the budgetary comparison schedule - general fund.
7. Supplementary information such as the Schedule of Expenditures of Federal Awards.

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures. Fund types are as follows:

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

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

Capital Projects Fund - Capital Projects Funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of improvements of major capital facilities and other assets.

Special Revenue Fund - Special Revenue Funds are used to account and report the proceeds of specific revenue sources derived from state and federal grants that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The uses and limitations of each special revenue fund are specified by Municipal ordinances or federal and state statutes.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

The outstanding balance of certain general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as certain notes payable, obligations under capital leases, accrued compensated absences, landfill obligation, claims and judgments, net pension liability and other long-term obligations) are only accounted for in the accompanying statement of net position. The debt service payments of such obligations are generally accounted for in the governmental fund which accounted for the financial resources used for the payment of such debts.

D. Measurement focus, basis of accounting and financial presentation

Government-wide financial statements (GWFS) – The accompanying GWFS are prepared using the economic resources measurement focus and the accrual basis of accounting. Subject to the additional rules and limitations detailed below, revenues (including interest on deposits and investments) are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are generally recorded when an exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one when there is an identifiable exchange and the values exchanged, though related, may not be quite equal. The accompanying basic financial statements include exchange-like transactions such as license fees, fines, penalties, forfeitures, and permits, charges for services, and most miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received.

The Municipality groups its non-exchange transactions into the following four (4) classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions. In the case of derived tax revenue transactions, which result from assessments that the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred (such as municipal license tax). In the case of imposed non-exchange revenue transactions (such as property taxes), which result from assessments made by the Municipality on non-governmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license taxes are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used for and in the first fiscal year that the use of the resources is permitted.

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

For government-mandated non-exchange transactions (such as intergovernmental grants and contributions), receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Therefore, revenue is generally recognized as qualifying reimbursable expenditures are incurred.

For voluntary non-exchange transactions (such as donations and certain grants and entitlements) receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above.

Interests on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2015. Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

According to GASB No. 34, all general capital assets and the unmatured long-term liabilities are recorded only in the accompanying statement of net position. The measurement focus and the basis of accounting used in the accompanying GWFS differ significantly from the measurement focus used in the preparation of the GFFS. Therefore, the accompanying GFFS include reconciliations, as detailed in the accompanying table of contents, to better identify the relationship between the GWFS and the GFFS.

Governmental Fund Financial Statements (GFFS) – The accompanying GFFS are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposits, intergovernmental grants and contributions and certain charges for services) to be available if collected within sixty (60) days after June 30, 2015.

Property taxes are all considered susceptible to accrual if commonly collected within sixty (60) days following the end of the fiscal period, unless unusual circumstances justify a greater period.

Other revenue sources considered susceptible to accrual include municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interests on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS.

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

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed above, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place while all revenues, expenses, gains, losses, and assets resulting from non-exchange transactions are recorded when an enforceable legal claim arises or when all eligibility requirements imposed by the provider have been met, if applicable. Interest on deposits are recorded when earned since these revenues are considered both measurable and available at June 30, 2015.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, as discussed below) the Municipality generally accrues a governmental fund liability and expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated in a timely manner and in full with current available financial resources. The accompanying Balance Sheet – Governmental Funds generally reflects only assets that will be converted into cash to satisfy current liabilities.

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. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying Balance Sheet – Governmental Funds.

The measurement focus of the GFFS is on decreases of net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying Statement of Activities, but are not recorded in the accompanying GFFS.

E. Assets, liabilities and net position

- 1. Cash, cash equivalents, and cash with fiscal agent** - The Municipality's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. Also, cash with fiscal agent consists of unused proceeds of bonds and notes issued for the acquisition of equipment and construction of major capital improvements.

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

Advances between funds, as reported in the fund financial statements, if any, are offset by a fund balance assignment account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined, based upon past collection experience and current economic conditions. Intergovernmental receivables in the General Fund represent the balance due from the Municipal Revenue Collection Center (CRIM) resulting from the final liquidations of property tax advances made by CRIM to the Municipality the final liquidation of contributions in lieu of taxes payable by the Puerto Rico Electric Power Authority (PREPA) to the Municipality and the reimbursement owed by the PR Department of Treasury for the 2015 Christmas bonus payment. During the last years, the Puerto Rico Electric Power Authority has not been financially able to afford the cost of the Contribution in Lieu of Taxes as required by Section 22(b) of Act Number 83-1941, as amended. For those years, the Authority has recognized a partial credit for each year and has amortized the remaining amount owed during the three subsequent fiscal years. Intergovernmental Receivables in the debt service fund represent the amounts due from the CRIM resulting from the excess of current year property tax collections over current year advances. Intergovernmental receivable in the special revenue or capital project funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

3. **Inventories-** Inventories of office supplies, construction material, etc. in the general fund are recorded as expenditure and, consequently, are not recorded as an asset in the statement of net position.
4. **Capital assets-** Capital assets include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. The Municipality defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Capital assets of the Municipality are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>
Land Improvements	20 years
Buildings, structures and building improvements	30 to 50 years
Infrastructure	20 to 50 years
Motor Vehicles	5 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years
Equipment held under capital leases	3 to 5 years

5. **Unearned revenues-** In the GFFS, unearned revenues arises when the Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.
6. **Long-term obligations-** The liabilities reported in the government-wide financial statements include general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize bond issuances costs, during the current period. The face amount of debt issued is reported as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

7. **Compensated absences-** Employees accumulate vacation leave at a rate of 2.5 days per month up to a maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. All vacation pay is accrued when incurred in the government-wide financial statements.

Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum of 90 days. Upon retirement, an employee receives compensation for all accumulated and unpaid sick leave at the current rate, if the employee has at least 10 years of service with the Municipality. All sick leave pay and salary related benefits are accrued when incurred in the governmental-wide financial statements when the employee meets such criteria.

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

8. **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 the liability is due.
9. **Fund Balances** – On July 1, 2009, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54), which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy upon the use of the resources reported in governmental funds.

Pursuant to the provisions of GASB No. 54, the accompanying GFFS report fund balance amounts that are considered restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described as follows:

- a. **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). These, restrictions may be changed or lifted only with the consent of resource providers.
- b. **Committed** – Represent resources used for specific purposes, imposed by formal action of the Municipality's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.
- c. **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- d. **Unassigned** – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts in restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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.

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

In situations when expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the Municipality generally spends restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

- 10. Net position** - Net position has been reported pursuant to the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net Position represents the difference between all assets plus deferred outflows of resources and all liabilities plus deferred inflows of resources. The Net Position consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributions, laws or regulations of other governments, etc.) or net position for which constraints are imposed by the constitutional provisions or enabling legislation.

Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

A legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. The Municipality periodically reevaluates the legal enforceability of an enabling legislation to determine if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration.

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

Internally imposed designation of resources, including earmarking, are not reported as restricted net position. These designations consist of management's plans for the use of resources, which are subject to change at the discretion of the Municipal Legislature.

In the government-wide statements, net position is segregated into three categories:

- a. **Net investment in capital assets:** Represents the component of the net position that consist of capital asset balances, net of accumulated depreciation, and outstanding balances of any bonds, notes and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. This category should not include cash that is restricted to capital asset acquisition or construction (unspent bond proceeds).
- b. **Restricted net position:** Represents the component of the net position that is subject to restrictions beyond the Municipality's control. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation (including enabling legislation passed by the government itself).

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

c. **Unrestricted net position:** Represents the component of the net position that does not meet the definition of net investment in capital assets or restricted. Unrestricted assets are 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. Designations are not reported on the face of the statement of net position.

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

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

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

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

12. Interfund and intra-entity transactions- The Municipality has the following types of transactions among funds:

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

13. Risk financing- The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Puerto Rico Treasury Department and costs are allocated among all the Municipalities of Puerto Rico. Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans being provided to the municipal employees.

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

The Municipality obtains medical insurance from a health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

Cost of insurance paid by the Municipality directly to an insurance company for the year ended June 30, 2015 amounted to \$228,769.

The current insurance policies have not been cancelled or terminated. The CRIM also deducted \$222,695 for workers' compensation insurance covering all municipal employees.

- 14. Use of estimates-** The preparation of 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 financial statements, and the reported amounts of revenues and expenses during the reported period. Actual amounts could differ from those estimates.

15. 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.

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

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.

16. Future adoption of accounting pronouncements

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

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

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

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

17. Subsequent events

Subsequent events have been evaluated through February 23, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

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

On July 1, 2005, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3*. This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

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

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

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor.

In addition, public funds deposited in commercial banks are fully collateralized for the amounts deposit in excess of the federal depository insurance. All securities pledged as collateral are held, in the Municipality's name, by the Commonwealth's Secretary of Treasury. Deposits with GDB are unassured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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

Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the

Secretary of the Treasury of Puerto Rico. In addition, the Municipality maintains deposits with the Government Development Bank for Puerto Rico (GDB).

Deposits - The Municipality's bank balances in commercial banks of approximately \$1,421,077 and \$596,742 in the general fund and the capital improvement fund, respectively, were fully collateralized at June 30, 2015. In the other governmental funds there were deposits with commercial banks of approximately \$1,701,140 that were fully collateralized.

The deposits at GDB of approximately \$69,274 that are restricted for other purposes in the general fund, the \$3,347,750 that is restricted principally for capital projects in the capital projects fund state & local grants; and the \$2,793,865 in the debt service fund are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES AND DUE FROM GOVERNMENTAL ENTITIES

A. Property taxes - Property taxes receivable recorded in the general fund and the debt service fund amounted to \$49,555 and \$113,826, respectively.

B. Municipal License Tax- the Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Act of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due on April 15 of each year. Entities with sales volume of \$3,000,000 or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

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

This tax is due in two equal installments on July 1 and January 1 of each fiscal year. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license tax receivable represents filed municipal license tax returns that were uncollected as of June 30, 2015, net of allowance for uncollectible accounts. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as unearned revenues.

3. RECEIVABLES AND DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

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

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

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

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

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

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.

3. RECEIVABLES AND DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

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 Yabucoa signed the agreement to be covered.

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

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

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

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

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

3. RECEIVABLES AND DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

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.

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 Yabucoa, the implementation date was February 1, 2015.

Sale tax receivable represents sales tax levied that were collected subsequent to June 30, 2015, but pertaining to current year period. At June 30, 2015, the sales and use taxes receivable amounted to \$68,410.

3. RECEIVABLES AND DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

D. Due from Commonwealth Government - In the General Fund, Due from Commonwealth Government represents expenditures incurred not yet reimbursed by other governmental entities. Following is a detail of the intergovernmental receivable:

<u>General Fund</u>	<u>Amount</u>
P.R. Treasury Department - Christmas bonus reimbursement	\$ 76,200
P.R. Electric and Power Authority	723,856
P.R. Office of Management and Budget-Retirement system subsidy	<u>119,028</u>
Total	<u>\$ 919,084</u>
<u>Other Governmental Funds</u>	<u>Amount</u>
P.R. Department of Labor - Law 52	<u>\$ 119,204</u>

E. Due from Federal Government - In the Other Governmental Funds, Due from Federal Government represents expenditures incurred not yet reimbursed by the Federal Government or the pass-through grantors. Following is a detail of amounts included in this item:

<u>Federal Program Description</u>	<u>Amount</u>
Community Development Block Grant – State’s Program	\$ 194,108
Child Care Development Block Grant	135,701
Community Service Block Grant	27,745
Federal Transit Administration	12,250
Disaster Grants – Public Assistance	<u>63,130</u>
Total	<u>\$ 432,934</u>

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4. INTERFUND TRANSACTIONS

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

a. Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Other Governmental Funds	Reimbursable expenditures	\$ 570,207
General Fund	Capital Project Fund- State & Local grants	Reimbursable expenditures	110,621
Other Governmental Funds	General Fund	Short-term borrowings	1,049,234
Other Governmental Funds	Capital Project Fund- State & Local grants	Reimbursable expenditures	<u>25,596</u>
Total			<u>\$1,755,658</u>

b. Transfer in/out to other funds:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt retirement	\$ 328,847
General Fund	Other Governmental Funds	Transfer of funds for operational activities	48,254
Debt Service Fund	General Fund	Transfer of funds for operational activities	418,086
Other Governmental Funds	General Fund	Transfer of funds for operational activities	<u>577,861</u>
Total			<u>\$ 1,373,048</u>

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5. CAPITAL ASSETS

Capital assets, those with an estimated useful life of one year or more from the time of acquisition by the Municipality and a cost of \$500 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2015, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance			Balance
	July 1, 2014	Additions	Retirements	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 8,021,703	\$ 58,100	\$ -	\$ 8,079,803
Construction in progress	<u>1,673,548</u>	<u>-</u>	<u>(600,287)</u>	<u>1,073,261</u>
Total capital assets not being depreciated	<u>9,695,251</u>	<u>58,100</u>	<u>(600,287)</u>	<u>9,153,064</u>
Capital assets, being depreciated:				
Buildings structures and building improvements	22,738,430	234,600	52,900	23,025,930
Infrastructure	34,981,823	178,853	547,387	35,708,063
Vehicles, machinery and equipment and furniture and fixtures	7,183,715	397,440	-	7,581,155
Office equipment under capital leases	<u>141,502</u>	<u>-</u>	<u>-</u>	<u>141,502</u>
Total capital assets being depreciated	<u>65,045,470</u>	<u>810,893</u>	<u>600,287</u>	<u>66,456,650</u>
Less accumulated depreciation for:				
Buildings structures and building improvements	(6,208,114)	(2,852)	-	(6,210,966)
Infrastructure	(12,178,141)	(48,090)	-	(12,226,231)
Vehicles, machinery and equipment and furniture and fixtures	(8,544,493)	(191,328)	-	(8,735,821)
Office equipment under capital leases	<u>(67,668)</u>	<u>-</u>	<u>-</u>	<u>(67,668)</u>
Total accumulated depreciation	<u>(26,998,416)</u>	<u>(242,270)</u>	<u>-</u>	<u>(27,240,686)</u>
Total capital assets being depreciated, net	<u>38,047,054</u>	<u>568,623</u>	<u>600,287</u>	<u>39,215,964</u>
Governmental activities capital assets, net	<u>\$ 47,742,305</u>	<u>\$ 626,723</u>	<u>\$ -</u>	<u>\$ 48,369,028</u>

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

Governmental activities:	Amount
General government	\$ 38,689
Public safety	19,104
Public works	165,244
Culture and recreation	<u>19,233</u>
Total depreciation expense-governmental activities	<u>\$ 242,270</u>

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

<u>Description</u>	<u>General Fund</u>	<u>Capital Projects Fund- State & Local Grants Funds</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts payable	\$ 4,211,126	\$ 351,201	\$ 323,980	\$ 4,886,307
Accrued liabilities	199,937	-	-	199,937
Total	\$ 4,411,063	\$ 351,201	\$ 323,980	\$ 5,086,244

7. DUE TO OTHER GOVERNMENTAL ENTITIES

The amounts due to other governmental entities in the General Fund include the following:

<u>Governmental Entity</u>	<u>Amount</u>
P.R. Aqueduct and Sewer Authority	\$ 80,905
P.R. Retirement System Administration- Special Laws	119,027
General Services Administration	22,239
Total	\$ 222,171

8. UNEARNED REVENUES

A. Municipal License Tax- The unearned revenues of \$3,292,091 in the general fund relates to municipal license tax collected in fiscal year 2014-15 that apply to the fiscal year 2015-2016.

B. Federal Government- The unearned revenues presented in the other governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the federal government are as follows:

<u>Program Description</u>	<u>Amount</u>
Emergency Shelter Grant	\$ 17,434
Disaster Grants – Public Assistance	199,745
Child and Adult Care Food Program	6,893
Homelessness Prevention and Rapid Re-housing Program	8,555
Department of Justice Assistance Grant	14,826
U.S. Department of Agriculture - Rural Development	450,726
Others	2,532
Total	\$ 700,641

9. 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 funds' financial statements but the revenue is not available, the Municipality should report a deferred inflow of resources until such time as the revenue becomes available. A detail of these balances follows:

	<u>Property Taxes</u>	<u>Commonwealth Government</u>
Major fund - General fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	\$ 49,555	\$ -
P.R. Electric Power Authority (PREPA)		723,856
P.R. Department of Treasury – Christmas bonus reimbursement		76,200
	<u>\$ 49,555</u>	<u>\$ 800,056</u>

10. PROPERTY TAXES

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

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

The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end, subject to the verification by its independent auditors'. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. For the fiscal year ended June 30, 2015, the CRIM issued the final liquidation reporting that collections exceeded advances by \$49,555.

10. PROPERTY TAXES (CONTINUED)

On January 26, 2000, Public Law No. 42 was enacted, which authorized the CRIM to obtain a loan up to \$200,000,000, and for a term not to exceeding 10 years, to allow for the financing of the debt that the Municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through the fiscal year ended June 30, 2000. The amounts that the Municipalities will collect from additional property taxes resulting from increases in the subsidy from the Commonwealth of Puerto Rico to the Municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238, enacted on August 15, 1999. On October 11, 2001, Public Law No. 146 was enacted to amend Public Law No. 42, to extend the loan amortization period up to 30 years. The Statement of Net Position includes an outstanding debt balance of \$464,580 at June 30, 2015 related with Law No. 42.

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

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

In order to protect the economic damage to the financial structure of municipalities caused by the substitution of uncollectible tax receivables with sound collectible receivables, on October 11, 2001, Public Law No. 146 was approved and enacted. Through this Law, the CRIM was authorized to obtain a loan from any qualified financial institution and pay in advance the outstanding balance of the bonds issued and any related cost incurred for the purchase by the Public Financing Corporation (a GDB subsidiary) of the tax receivables. The loan is being paid by the municipalities through a 30-year long term financing negotiated by the CRIM with GDB on behalf of such municipalities as authorized by the indicated Law. During the first five years of the note, commenced on July 1, 2003, the Municipality shall pay only interest. At the end of the first five years of the note, the repayment terms and conditions of the note shall be renegotiated to allow the Municipality to pay the outstanding balance of the note in equal installments of principal plus interest, through maturity. The Statement of Net Position includes an outstanding debt balance of \$145,183 related to Law No. 146.

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

11. LONG-TERM LIABILITIES

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

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and notes payable	\$ 18,328,100	\$ 3,501,000	(\$ 1,042,500)	\$ 20,786,600	\$ 1,038,000
Note payable to CRIM - Law No. 42	478,998	-	(14,418)	464,580	15,324
Note payable to CRIM - Law No. 146	153,723	-	(8,540)	145,183	8,540
U.S. Department of Rural Development	69,954	-	-	69,954	-
Compensated absences	1,462,940	99,906	-	1,562,846	135,000
Post-closure care costs	3,563,314	-	-	3,563,314	-
Note payable to PR Department of Labor - unemployment tax	77,332	-	(51,552)	25,780	25,780
Claims and judgments	1,533,751	-	(45,729)	1,488,022	-
Note payable to P.R. Aqueduct and Sewer Authority	484,707	-	(290,820)	193,887	193,887
Note payable to P.R. Department of Treasury	288,573	-	(56,784)	231,789	68,148
Christmas Bonus	252,504	164,059	(252,504)	164,059	164,059
Payable to P.R. Electric Power Authority	1,693,470	-	(969,614)	723,856	723,856
Total	\$ 28,387,366	\$ 3,764,965	(\$ 2,732,461)	\$ 29,419,870	\$ 2,372,594

- A. Legal debt margin-** The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.
- B. Bonds and notes payable-** The Municipality issues general obligation, special obligation and public improvement bonds and notes to finance the acquisition, construction and improvement of capital assets, as well as to finance certain operating needs, including the payment to suppliers in certain circumstances.

The laws and regulations of the Commonwealth provide that the Municipality's public debt will constitute a first claim on the available revenue of the Municipality. Public debt is composed of bonds and notes payable. The good faith credit and taxing power of the Municipality are irrevocably pledged for the prompt payment of the principal and interest of bonds.

As described in **Note 10** the Municipality levies an annual additional special tax of 4.00 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's Debt Service Fund.

11. LONG-TERM LIABILITIES (CONTINUED)

For financial reporting purposes the outstanding balances of bonds represent the total principal to be repaid. Bonds payable is composed as follows at June 30, 2015:

Description	Balance at June 30, 2015
1993 General bond obligation for construction and improvement of infrastructure assets with an original amount \$657,000 due in installments of \$16,000 to \$47,000 through January 1, 2016, with interest of 5.0%	\$ 47,000
1994 General obligation bond for construction and improvements of infrastructure with an original amount of \$238,000 due in installments of \$6,000 to \$17,000 through January 1, 2016, with interest ranging of 5.0%	17,000
1995 General obligation bond for construction and improvements of infrastructure with an original amount of \$106,00 due in installments of \$2,000 to \$8,000 through January 1, 2019, with interest ranging of 4.50%	29,000
1995 General obligation bond for construction and improvements of infrastructure with an original amount of \$36,000 due in installments of \$1,000 to \$3,000 through January 1, 2019, with interest ranging of 4.50%.	9,000
1998 General obligation bond for operational debts payment with an original amount of \$3,310,000 due in installments of \$75,000 to \$305,000, through July 1, 2017, with interest ranging from 1.28% to 7.81%	590,000
2001 General obligation bond for operational debts payment with an original amount of \$600,000 due in installments of \$5,000 to \$50,000, through January 1, 2025, with interest ranging from 1.28% to 8.00%	405,000
2002 General obligation bond for construction and improvement of infrastructure assets with an original amount \$1,910,000 due in installments of \$5,000 to \$295,000 through July 1, 2027, with interest ranging from 1.28% to 6.37%.	1,850,000
2003 General bond obligation for construction and improvement of infrastructure assets with an original amount \$680,000 due in installments of \$10,000 to \$50,000 through July 1, 2027, with interest ranging from 4.17 %to 5.31%.	480,000
2003 General bond obligation for construction and improvement of infrastructure assets with an original amount \$230,000 due in installments of \$5,000 to \$20,000 through July 1, 2027, with interest ranging from 4.17 %to 5.31%	165,000
2003 General bond obligation for construction and improvement of infrastructure assets with an original amount \$300,000 due in installments of \$5,000 to \$30,000 through July 1, 2027, with interest ranging from 4.17% to 5.31%	215,000
2003 General bond for construction and improvement of infrastructure assets with an original amount \$305,000 due in installments of \$5,000 to \$25,000 through July 1, 2028, with interest ranging from 4.17% to 5.31%	225,000
2003 General obligation bond for operational debts payment with an original amount of \$190,000 due in installments of \$5,000 to \$15,000, through July 1, 2028, with interest ranging from 1.53% to 6.50%	130,000
2005 General bond obligation for construction and improvement of infrastructure assets with an original amount \$135,000 due in installments of \$5,000 to \$10,000 through July 1, 2030, with interest ranging from 4.23% to 5.31%	90,000
2003 General obligation bond for operational debts payment with an original amount of \$335,000 due in installments of \$5,000 to \$25,000, through July 1, 2027, with interest ranging from 1.53% to 6.50%	230,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2005 General bond obligation for construction and improvement of infrastructure assets with an original amount \$540,000 due in installments of \$10,000 to \$45,000 through July 1, 2030, with interest ranging from 4.23% to 5.33%	425,000
2005 General bond obligation for construction and improvement of infrastructure assets with an original amount \$335,000 due in installments of \$5,000 to \$30,000 through July 1, 2030, with interest ranging from 4.23% to 5.33%	260,000
2006 General bond obligation for operational debts payment with an original amount \$1,700,000 due in installments of \$70,000 to \$170,000 through July 1, 2020, with interest ranging from 1.53% to 6.62%	875,000
2006 General bond obligation for construction and improvement of infrastructure assets with an original amount \$421,000 due in installments of \$12,000 to \$34,000 through July 1, 2031, with interest ranging of 4.25%	388,000
2008 General bond obligation for construction and improvement of infrastructure assets with an original amount \$1,300,000 due in installments of \$20,000 to \$115,000 through July 1, 2032, with interest ranging from 1.53% to 7.50%	1,135,000
2008 Special obligation bond for operational debt payments with an original amount \$3,155,000 due in installments of \$40,000 to \$315,000 through July 1, 2032, with interest ranging from 1.53% to 6.50%	2,825,000
2008 Special obligation bond for operational debt payments with an original amount \$160,000 due in installments of \$2,300 to \$15,000 through July 1, 2032, with interest ranging from 1.53% to 7.25%	142,600
2009 General obligation bond for operational debts payment with an original amount of \$305,000 due in installments of \$5,000 to \$30,000, through July 1, 2034, with interest ranging from 4.75% to 7.50%	275,000
2011 Special obligation bond for operational debt payments with an original amount \$3,326,000 due in installments of \$300,000 to \$431,000 through July 1, 2035, with interest ranging from 6.00% to 6.50%	2,516,000
2012 General bond obligation for construction and improvement of infrastructure assets with an original amount \$760,000 due in installments of \$25,000 to \$213,000 through July 1, 2021, with interest ranging from 6.00% to 7.00%	675,000
2013 General bond obligation for operational debt payments with an original amount \$1,505,000 due in installments of \$20,000 to \$110,000 through July 1, 2037, with interest ranging of 6.00%	1,455,000
2014 General bond obligation for operational debt payments with an original amount \$1,870,000 due in installments of \$30,000 to \$140,000 through July 1, 2038, with interest ranging of 6.00%	1,840,000
2015 General bond obligation for construction and improvement of infrastructure assets with an original amount \$3,340,000 due in installments of \$75,000 to \$315,000 through July 1, 2034, with interest ranging from 7.00% to 8.00%	3,340,000
2011 General bond obligation for construction and improvement of infrastructure assets with an original amount \$161,000 due in installments of \$8,000 to \$15,000 through January 1, 2028, with interest of 4.25%	153,000
Total general obligation bonds	\$ 20,786,600

11. LONG-TERM LIABILITIES (CONTINUED)

These bonds and notes, except the 1998 Series \$3,310,000 bond, the 2003 Series \$680,000, \$335,000 and \$190,000 bonds, and the 2009 Series \$305,000 bond, are payable from the special ad valorem property tax of 4.00% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The before detailed bonds are payable with General Fund resources. The Series 2008 amounting \$3,155,000 and \$160,000, and 2011 Series \$3,326,000 are payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

<u>Year Ending</u> <u>June 30, 2015</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,038,000	\$ 980,712
2017	1,021,000	1,182,023
2018	754,000	1,116,616
2019	906,000	1,074,862
2020	962,000	1,028,121
2021-2025	4,913,600	4,279,013
2026-2030	5,252,000	2,785,897
2031-2035	4,684,000	1,191,335
2036-2040	1,256,000	106,558
Total	\$ 20,786,600	\$ 13,745,137

- C. Notes payable to CRIM - Law No. 146 and Law No. 42** - These amounts represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2015 as described in Note 10.
- D. U.S. Department of Rural Development** – This amount represent the balance owed to the US Department of Rural Development related with federal funds appropriations made by the Municipality.
- E. Compensated absences-** The government-wide statement of net position includes approximately \$479,827 of accrued sick leave benefits, and approximately \$1,083,019 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.
- F. Post-closure care costs - State and federal laws and regulations** require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB statement No. 18 of "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs" requires the Municipality to perform a study of the activities that need to be implemented at the Municipality's solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. The Municipality has not performed such a study but has recognized \$3,563,314 as an estimated current cost for landfill post-closure cares costs as of June 30, 2015. Actual costs may be different once a study has been made as per the required regulations and due to inflation, changes in technology, or changes in laws and regulations. The balance of post-closure costs is reported in the government-wide statement of net position.

11. LONG-TERM LIABILITIES (CONTINUED)

- G. **Note payable to PR Department of Labor - Unemployment tax** – These amounts represent the balance owed to the Department of Labor related with unemployment compensation.
- H. **Claims and judgments** – Represents the estimated loss of legal cases to be paid subsequent to June 30, 2015. The awarded amount, if any, will be paid with unrestricted funds.
- I. **Note payable to P.R. Aqueduct and Sewer Authority** – This amount represent the balance of a debt repayment agreement with the Authority at June 30, 2015.
- J. **Note payable to P.R. Department of Treasury** – This amount represent the balance of a debt repayment agreement with the Department at June 30, 2015, related to the income taxes withheld to the employees and professional services.
- K. **Christmas Bonus** – represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is \$164,059.
- L. **Payable to the P.R. Electric Power Authority** – 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 \$723,856 only includes the unamortized balance from 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:

<u>June 30</u>	<u>Principal</u>
2016	<u>\$ 723,856</u>
Total	<u>\$ 723,856</u>

12. 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.

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 \$461,916.

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 \$119,027, of which \$33,553 (28%) was subsidized by the OMB.

12. PENSION PLAN (CONTINUED)

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

13. 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 \$212,851, of which \$104,400 (49%) was subsidized by OMB. These benefits are recorded as expenditures in the general fund.

14. RISK MANAGEMENT

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

15. COMMITMENTS AND CONTINGENCIES

The Municipality has reported outstanding encumbrances amounting to \$146,585 in the General Fund at June 30, 2015. The Municipality intends to honor these encumbrances which will continue to be liquidated under the current year's budget during a lapse period that extends into the fiscal year.

16. FUND BALANCE (DEFICIT)

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

	<u>General Fund</u>	<u>Capital Projects Fund and Local Grants</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted					
General government	\$ 153,747	\$ -	\$ -	\$ 116,620	\$ 270,367
Public safety	-	-	-	6,565	6,565
Public works	-	3,457,074	-	417,440	3,874,514
Health and welfare	-	-	-	416,508	416,508
Culture and recreation	-	-	-	138,533	138,533
Community development	-	-	-	630,860	630,860
Debt service	-	-	2,907,691	-	2,907,691
Unassigned	<u>(6,729,677)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,729,677)</u>
Total fund balances (deficit)	<u><u>\$ (6,575,930)</u></u>	<u><u>\$ 3,457,074</u></u>	<u><u>\$ 2,907,691</u></u>	<u><u>\$ 1,726,526</u></u>	<u><u>\$ 1,515,361</u></u>

17. PRIOR PERIOD ADJUSTMENTS

A. GOVERNMENT WIDE FINANCIAL STATEMENTS

The following restatements have been made in the government wide financial statements, which are reported as an adjustment to the beginning net position:

<u>Description</u>	<u>Governmental Activities</u>
Net position – beginning	\$ 18,280,129
Overstatement of the payable to PR Department of Health Service	<u>2,047,816</u>
Net position - beginning, as restated	<u><u>\$ 20,327,945</u></u>

18. SUBSEQUENT EVENTS

Puerto Rico Fiscal and Economic Growth Plan

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

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES AND OTHER FINANCING SOURCES:				
Property taxes	\$ 2,264,506	\$ 2,264,506	\$ 2,264,506	\$ -
Municipal license taxes	4,058,546	4,058,546	3,606,384	(452,162)
Municipal sales taxes	910,000	910,000	856,900	(53,100)
Licenses, permits and other local taxes	1,077,500	1,077,500	313,590	(763,910)
Intergovernmental	6,479,195	6,479,195	7,240,587	761,392
Interest	25,000	25,000	165,377	140,377
Miscellaneous	539,734	539,734	422,078	(117,656)
Total revenues	<u>15,354,481</u>	<u>15,354,481</u>	<u>14,869,422</u>	<u>(485,059)</u>
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
General government	6,560,454	6,481,917	6,426,253	55,664
Public safety	1,491,177	1,492,950	1,470,561	22,389
Public work	2,700,084	2,846,439	2,692,373	154,066
Health and welfare	2,918,259	2,924,431	2,881,997	42,434
Culture and recreation	784,007	801,269	767,041	34,228
Education	457,375	429,350	410,345	19,005
Operating transfer out and other financing uses:	443,125	378,125	328,847	49,278
Total expenditures, encumbrances and other financing uses	<u>15,354,481</u>	<u>15,354,481</u>	<u>14,977,417</u>	<u>377,064</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (107,995)</u>	<u>\$ (107,995)</u>
Explanation of Differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$14,869,422
Differences-budget to GAAP:				
GAAP adjustments to revenues				1,028,194
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$15,897,616</u>
Uses/outflows of resources:				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$14,977,417
Differences-budget to GAAP:				
Non budgeted expenditures				199,517
Prior year encumbrances recorded as current year expenditures for GAAP basis				75,597
Current year encumbrances recorded as expenditures for budgetary purposes				(146,585)
Non budgeted transfers-out				(328,847)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$14,777,099</u>

See notes to the Budgetary Comparison Schedule-General Fund.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Control

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

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

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

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S DEPARTMENT OF AGRICULTURE			
Direct Program:			
Rural Housing Preservation Grant Program	10.433	N/A	\$ 49,530
Water and Waste Disposal – Systems for Rural Communities	10.760	N/A	96,950
Emergency Watershed Protection Program	10.923	N/A	254,234
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	<u>4,597</u>
Total U.S. Department of Agriculture			<u>405,311</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A	634,194
Pass-through the Commonwealth of Puerto Rico Office of Commissioner of Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	Not Available	1,289,204
Pass-through the Commonwealth Municipality of San Juan			
Housing Opportunities for Persons with AIDS(HOPWA)	14.241	Not Available	<u>1,764</u>
Total U.S. Department of Housing and Urban Development			<u>1,925,162</u>

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Community Services Block Grant	93.569	Not Available	43,426
Child Care and Development Block Grant	93.575	Not Available	<u>67,085</u>
Total U.S. Department of Human Services			<u>110,511</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,440,984</u></u>

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION:

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, 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.

2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Expenditures of the federal awards as reported in the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental funds, are included within the Other Governmental Funds. The reconciliation between the expenditures in the basic financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

<u>Description</u>	<u>Other Governmental Funds</u>
Per Schedule of Expenditures of Federal Awards	\$ 2,440,984
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	4,801
Non-federal awards expenditures	<u>4,085,106</u>
Total expenditures in the basic financial statements	<u>\$ 6,530,891</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Municipality of Yabucoa**, Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated February 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the **Municipality of Yabucoa's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Yabucoa's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Yabucoa'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, significant deficiencies, 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 consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2015-001** thru **2015-006** to be material weaknesses.

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

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **2015-007** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Yabucoa'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 items **2015-001, 2015-002 and 2015-004 thru 2015-006**.

Municipality of Yabucoa's Response to Findings

Municipality of Yabucoa's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Municipality of Yabucoa'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
February 23, 2016

Stamp No. 2705504 of the Puerto Rico
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Yabucoa'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 Yabucoa's** major federal programs for the year ended June 30, 2015. **Municipality of Yabucoa's** major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Yabucoa'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 Yabucoa'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 Yabucoa's** compliance.

INDEPENDENT AUDITORS' 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 Community Development Block Grants – State's Program

As described in **2015-008**, in the accompanying schedule of findings and questioned costs, the **Municipality of Yabucoa** did not comply with requirements regarding *equipment and real property management* that are applicable to the Community Development Block Grants – State's Program (CFDA No. 14.228). Compliance with such requirements is necessary, in our opinion, for the **Municipality of Yabucoa** to comply with the requirements applicable to that program.

Qualified Opinion on Community Development Block Grants – State's Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the **Municipality of Yabucoa** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grants – State's Program for the year ended June 30, 2015.

Unqualified Opinion on Each of the Other Major Federal Programs

In our opinion, the **Municipality of Yabucoa** 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.

Report on Internal Control Over Compliance

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



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

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

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

We noted certain other matters that we reported to management of the **Municipality of Yabucoa** in a separate letter dated February 23, 2016.

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


LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
February 23, 2016

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Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	FFS - Qualified	GWFS- Adverse
Internal control over financial reporting: Material weakness identified?	Yes X	No
Significant deficiencies identified not considered to be material weaknesses?	Yes X	None reported
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 to be material weaknesses?	Yes	X None reported
Type of auditors’ report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	No X

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – State’s Program
14.871	Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? Yes No **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 (MW)**

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

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

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

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

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

Section II – Financial Statements Findings

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

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

Questioned Cost None

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

Implementation Date: Still in process

Responsible Person: Mr. Pedro A. Crespo Ortiz,
Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-002
Requirement	Operating deficit of general fund
Statement of Condition	As of June 30, 2015, the Municipality closed with an accumulated unassigned (deficit) fund balance of \$6,575,930 in the general fund as presented in the balance sheet-governmental funds.
Criteria	<p>Article 7.011, Section (a) of Autonomous Municipal Act (Law 81) establishes that if the Municipal close its operations on deficit it must provide for sufficient resources to cover it during the next fiscal year. Section (b) establishes among other things, that provides that accrued deficit in the Municipality, by public debt, will be amortized in a period of 40 years. The equivalent amortization amount will be established in an expense account in the annual budget known as accrued deficit which will be indicated in the chart of accounts.</p> <p>Article 8.004 (b) establishes no amount shall be expended or obligated in a given fiscal year of if exceeds its budgeted or authorized amounts by the Municipal Legislation.</p> <p>Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (the regulation) states that the Municipality should prepare the annual budget using the next revenues in order to avoid operational deficits.</p>
Cause of Condition	The overstatement of estimated revenues and/or the incurrence of obligations without available credit caused the Municipality to operate with a deficit.
Effect of Condition	The Municipality did not comply with the Article 7.011, Section (a), Article 8.004 (b) and Section 3 of the revised regulation over basic Standard for Municipalities of Puerto Rico.
Recommendation	We recommend management to evaluate the adequacy of the provision for deficit reserve accounts in the next budget for the amortization of public debt as recommend by Law. Also, the Municipality's officers must evaluate the negative variances between budgeted revenues and actual revenues trend to reduce the budgeted expenses by department (quarterly allocation process) and to avoid future operational deficits at end of year.
Questioned Costs	None

Section II – Financial Statements Findings

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

**Management Response
and Corrective Action**

The Municipality have taken aggressive action to increase revenues and has implemented more efficient control over expenditures to reduce and, in a near future, eliminate the accumulated deficit and prevent future budget deficits.

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Milta Bermúdez, Finance Director

Section II – Financial Statements Findings

Finding Reference	2015-003
Requirement	Financial Reporting – Accounting Records (MW)
Statement of Condition	During our examination of the Municipality’s accounting system, we detected that the Municipality does not have adequate and effective internal controls to ensure that all the required financial and budgetary information was recognized and reported in the proper accounting period. Also, the accounting system does not summarize the transactions in a formal General Ledger in order to properly record and account for the transactions of all of its Governmental Funds (Local, State and Federal funds).
Criteria	Sections (a) and (b) of Law 81, indicates that the accounting system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with Accounting Principles General Accepted in the United States of America and established by Governmental Accounting Standard Board.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry general ledger record.
Effect of Condition	The Municipality’s accounting system did not provide updated and complete financial information that present the financial position, the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend the Municipality should implement the necessary internal controls and procedures in order to maintain an accounting system that contains information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, expenditures, interfund transactions, etc.
Questioned Cost	None
Management Response and Corrective Action	The Municipality will reevaluate the internal controls over financial reporting in order to improve their design and effectiveness. We will strengthen our accounting personnel’s training in the proper recording of financial and budgetary transactions so the Municipality’s manual records include all the required accounting data. Monthly monitoring and follow-up procedures will be enforced by the Finance Department to ensure that the new internal controls are correctly implemented.
	Implementation Date: July 2016
	Responsible Persons: Mr. Pedro A. Crespo Ortiz Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-004
Requirement	Capital Assets and Expenditures – Subsidiary Ledger (MW)
Statement of Condition	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not determinable.
Criteria	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.
Cause of Condition	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
Effect of Condition	The Municipality's Government-Wide Financial Statements does not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.
Recommendation	We recommend that the Municipality should continue the compilation of information necessary to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
Questioned Cost	None
Management Response and Corrective Action	The Municipality's Finance Department staff plans to continue in their effort to update the capital assets subsidiary ledger, mainly the infrastructure assets.
	Implementation Date: July 2016
	Responsible Persons: Mr. Pedro A. Crespo Ortiz Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-005
Requirement	Accounting Records – Municipal Solid Waste Landfill Post-closure Care and Maintenance Costs Determination (MW)
Statement of Condition	The Municipality did not comply with the requirements established by GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Post-closure costs. At June 30, 2015, the accompanying statement of net position presents a liability for post-closure care cost of the Municipality’s solid waste landfill of \$3,563,314. However, this estimate has not been made based on a study in conformity with the regulatory requirements established by the EPA “Solid Waste Disposal Facility Criteria”.
Criteria	Regulations set forth by the US Environmental Protection Agency (EPA) “Solid Waste Disposal Facility Criteria,” the Municipality is required to place a final cover on its solid waste landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. GASB 18 requires the Municipality to perform a study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.
Cause of Condition	The Municipality did not maintain and adequate control of the accountability of the post- closure care cost of its solid waste landfill. In addition, the Municipality did not perform the study required by EPA and GASB 18.
Effect of Condition	The Municipality is not in compliance with GASB 18 and the “Solid Waste Disposal Facility Criteria” issued by the US Environmental Protection Agency.
Recommendation	We recommend management to perform the study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities and determine the amount of the liability that should be reported in the governmental activities.
Questioned Costs	None
Management Response and Corrective Action	The Municipality’s Management will perform the required study in order to record a reasonable estimate of the post-closure costs of its landfill facilities in order to include that liability in the fiscal year 2015-2016 government-wide financial statements.
	Implementation Date: July 2016
	Responsible Person: Mr. Pedro Crespo Ortiz Finance Department Director

Section II – Financial Statements Findings

Finding Reference	2015-006
Requirement	Financial Reporting – Interfund Transactions (MW)
Statement of Condition	During our examination, we noted that for the fiscal year 2014-2015, the accounting records related to interfund transactions were not adequate.
Criteria	Article 8.010 (C) (2) and (3) of State Act Number 81 of August 30, 1991, stated that Municipality should maintain accurate accounting records and fund controls.
Cause of Condition	The Management’s controls and procedures failed to assure that the Municipality maintained accurate accounting records related to interfund transactions.
Effect of Condition	The Municipality did not maintain an adequate control of the accountability regarding interfund transactions.
Recommendation	We recommend that the Municipality should implement internal control and procedures in order to maintain an accounting system that contains information pertaining to interfund transactions.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, we will review the interfund balance as of June 30, 2015, in order to determine the correct balance. This review include continuously reviewing our manual accounting records, in order to determine the correct balance of the local and state funds received by the Municipality, and perform the necessary adjustment entries to correct them.
	Implementation Date: July 2016
	Responsible Person: Mr. Pedro Crespo Ortiz Finance Department Director

Section II – Financial Statements Findings**Finding Reference** **2015-007****Requirement** **Expenditures for Goods and Services and Accounts Payables-
Purchasing and receiving****Statement of Condition** We performed a cash disbursements test and examined twenty two (22) payments which belonged to General Fund, four (4) payments which belonged to Bond \$3,340,000 special fund, eleven (11) payments which belonged to Special Fund and twenty three (23) which belonged to Community Development Block Grants – State’s Program (CDBG). The following will summarize the internal control exceptions noted:

- a. In four (4) payments which belonged to General Fund, five (5) payments which belonged to Bond \$3,340,000 special fund, five (5) payments which belonged to Special Fund and eight (8) which belonged to Community Development Block Grants, several disbursement vouchers documents were not marked as paid;
- b. In three (3) payments which belonged to General Fund, one (1) payment which belonged to Bond \$3,340,000 special fund, and five (5) payments which belonged to Special Fund, the disbursement voucher did not include the original invoice;
- c. In three (3) payments which belonged to General Fund, five (5) payments which belonged to Special Fund and five (5) which belonged to Community Development Block Grants, the disbursement voucher did not include evidence or certification of the Municipality's employee who had knowledge of the receiving of the goods or services;
- d. In five (5) payments which belonged to General Fund, two (2) payments which belonged to Special Fund and three (3) which belonged to Community Development Block Grants, the Purchase Order was issued after the receiving of good or services;
- e. In three (3) payments which belonged to General Fund and one (1) which belonged to Community Development Block Grants, we noted that the invoice did not include the supplier’s signature;
- f. In four (4) payments which belonged to Bond \$3,340,000 special fund, we noted that the disbursement vouchers did not include the authorized official signature;

Section II – Financial Statements Findings

Finding Reference	2015-007 (Continued)
	g. In twelve (12) payments which belonged to General Fund, two (2) payments which belonged to Bond \$3,340,000 special fund, four (4) payments which belonged to Special Fund and one (1) which belonged to Community Development Block Grants, the disbursement voucher did not include a minimum of three (3) price quotations;
Criteria	The Revised Regulations on Basic Standards for the Municipalities of Puerto Rico establishes in Chapter Four (4) that the Finance Director will be responsible to account and prepare disbursements through documents duly prepared and certified, including sufficient evidential matter to support the transactions.
Cause of Condition	The Municipality internal control procedures failed to ensure that all transactions include all the required documentation and approvals.
Effect of Condition	The Municipality is not in compliance with Chapter Four (4) of the Revised Regulations on Basic Standards for the Municipalities of Puerto Rico.
Recommendation	We recommend the Municipality improves its internal control procedures in order to ensure that the disbursement vouchers contain all the necessary supporting documents before making the payments and are duly safeguarded so as to ensure their availability for review.
Questioned Costs	None
Management Response and Corrective Action	Management will instruct the Finance Department staff (including the Official Payer, the Pre-Auditor, the Department Accountant, the Department Secretary, etc.) to strengthen the procedures established in the regulation, in order to ensure that the disbursement vouchers contain all the necessary supporting documents and approvals before making the payments. Also, the Municipality will instruct its personnel to ensure that proper filing of documents are performed so that disbursement vouchers and their justificants are available for examination at any time.
	Implementation Date: July 2016
	Responsible Person: Mr. Pedro Crespo Ortiz Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	2015-008
Program	Community Development Block Grant – State’s Program (CFDA. No. 14.228); U.S. Department of Housing and Urban Development; Pass-through State – Office of Commissioner of Municipal Affairs
Requirement	Equipment and Real Property Management (MW)
Statement of Condition	Section II – Financial Statements Findings – Finding Reference 2015-004

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
2014-006	14.228	<p><u>We performed an activities allowed-housekeeper activities test of twelve (12) participant files and we noted that the Municipality did not maintain complete and updated participant files as required by the Operational Guide for the Housekeeper Services.</u></p> <p>Partial corrective action has been taken.</p>
2014-007	14.228	<p><u>During our Housing Rehabilitation test, we examined ten (10) participant files and we noted the following exceptions: a) In four (4) cases, we did not find evidence of the persons with disabilities living in the house; b) In four (4) participant files, documents used for inspections were left in blank.</u></p> <p>Corrective action has been taken.</p>
2014-008	14.228	<p><u>During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable period of time. We selected a sample of ten (10) fund requisitions (a total of \$655,573.30) and we found the following exception: in two (2) fund requisitions (a total of \$116,839.13), we observed that the Municipality made the disbursements between six (6) and thirteen (13) days after the deposits.</u></p> <p>Corrective action has been taken.</p>
2014-009	14.228	<p><u>During our Davis-Bacon Act test, we evaluated four (4) construction contracts active during fiscal year 2013-2014. The following will summarize the exceptions noted: a) Two (2) contracts did not contain the Davis Bacon Act clause. b) The Municipality did not require the contractor to submit weekly payrolls in one (1) case. c) In one (1) of the files we did not find evidence that the Municipality's monitor certified the weekly payroll supplied by the contractors. d) The Municipality did not apply adequate monitoring procedures for the required on-site visits to monitor the classifications of workers and wage rates paid in three (3) of the four (4) contracts. e)The contract did not contain provisions for payment of prevailing wages rates.</u></p> <p>Corrective action has been taken.</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)
2014-010	14.228	<p><u>Equipment and Real Property Management (MW). Section II – Financial Statements Findings – Finding Reference 15-03</u></p> <p>No corrective action has been taken. The auditors' reissued the finding in the current year. See Finding Reference 2015-008.</p>
2014-011	14.871	<p><u>During our Eligibility Test, we examined twenty-one (21) participant files and we noted the following situations: a) In twelve (12) cases, the Enterprises Income Verification (EIV) was not performed; b) In two (2) cases, the "Privacy Act Notice" was not signed when a member of the family turned 18 years old; c) In (21) cases, we did not find a document provided by the PHA staff were the participant authorizes the PHA to obtain information from third parties; d) In five (5) cases, the "Privacy Act Notice" had expired; e) In five (5) cases, the "Authorization for the Release of Information" had expired; f) In two (2) cases, the participant files did not include evidence that the house structural deficiencies had been fixed.</u></p> <p>Partial corrective action has been taken.</p>
2014-012	14.871	<p><u>During our audit, we noted that the Municipality did not comply with the compliance requirement of Depository Agreements. The PHA is required to enter into depository agreement with their financial institutions in the form required by HUD. (Form HUD-51999)</u></p> <p>Corrective action has been taken.</p>
2014-013	14.871	<p><u>During our examination, we noted that the Section 8 Housing Choice Vouchers Program did not maintain a HAP register in the form required by HUD. The PHA is required to maintain a HAP contract register or similar record that must provide information as to the name and address of the family, the name and address of the owner, dwelling unit size, the beginning date of the lease term, the monthly rent payable to the owner, monthly rent payable by the family to the owner, and the monthly HAP. The record shall also provide data as to the date the family vacates and the number of days the unit is vacant if any.</u></p> <p>Corrective action has been taken.</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)
2014-014	14.871	<p><u>The PHA did not maintain an update utility allowance schedule for the audit period ending June 30, 2014. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rate.</u></p> <p>Corrective action has been taken.</p>
13-06	14.228	<p><u>During our audit procedures, we examined a sample of nine (9) fund requisitions and identified two (2) cases in which the program did not pay its obligations in the time required by Federal Regulations.</u></p> <p>Corrective action has been taken.</p>
13-07	14.228	<p><u>During our Davis-Bacon Act test, we evaluated the only construction contract active during fiscal year 2012-2013. The following will summarize the exceptions noted: a) The contract did not contain the Davis Bacon Act clause. b) The Municipality did not require the contractor to submit weekly payrolls. c) We did not obtain evidence that the Municipality's monitors certified the weekly payroll supplied by the contractors.d) The Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid.</u></p> <p>Corrective action has been taken.</p>
13-08	14.228	<p><u>Equipment and Real Property Management (MW). Section II – Financial Statements Findings – Finding Reference 13-03</u></p> <p>No corrective action has been taken. The auditors' reissued the finding in the current year. See Finding Reference 2015-008.</p>
13-09	14.228	<p><u>During our audit of the program income requirements, we noted that the Municipality submitted one of the reports after its due date.</u></p> <p>Corrective action has been taken.</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)
13-10	14.228	<p><u>Financial Reporting – Accounting Records (MW). Section II – Financial Statements Findings – Finding Reference 13-02</u></p> <p>Corrective action has been taken.</p>
13-11	14.871	<p><u>During our Eligibility Test, we examined fifteen (15) participant’s files and we found the following deficiencies: a) EIV Income Report was not obtained for twelve (12) new admissions at the time of conducting the examination of the family income and composition. b) One (1) participant file the PHA did not document the reasonable rent determination worksheet.</u></p> <p>Partial corrective action has been taken.</p>
13-12	14.871	<p><u>Financial Reporting – Accounting Records (MW). Section II – Financial Statements Findings – Finding Reference 13-02</u></p> <p>Corrective action has been taken.</p>