COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF YAUCO

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

Year Ended June 30, 2015

Municipality of Yauco, P.O. Box 1, Yauco, Puerto Rico 00698
Hon. Abel Nazario Quiñones - Mayor

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Qualified
Special Revenue- Fund HUD Grants	Qualified
Debt Service Fund	Qualified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on the Government-Wide Financial Statements – Statement of Net Position and Statement of 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. 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.

In addition, 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 $108,969,983, $46,018,231 and $62,451,752.

Management has not capitalized certain acquisitions of properties and equipment and the construction in progress in the governmental activities and, accordingly, such disbursements are recognized as expenses in the statement of activities. Also, no depreciation expense has been recorded for those assets in the fiscal year 2014-2015. 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.

Also, as discussed in Note 11, to the financial statements, management has not evaluated its estimate of the total current cost related to closure and post closure care of its Municipal Solid Waste Landfill Facilities (MSWLF) recorded as a non-current liability in governmental activities and, accordingly, has not adjusted the recorded liability. Accounting principles generally accepted in the United States of America require that at the end of each year, the governmental entities that own and operate a MSWLF should evaluate its estimate of the total current cost related to closure and post closure care of its facilities, due to changes in expected cost from a number of factors, including inflation or deflation, technological advancements, and modifications of legal requirements at the local, state, or national level. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities is not reasonably determinable.

Qualified Opinion

In our opinion, because of the significance of the matter discusses in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of the **Municipality of Yauco**, 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 Governmental Funds

The Municipality did not maintain complete and accurate 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 the accounts recorded in the interfund balances in the amount of $5,040,500 recorded in each major fund and the aggregate remaining fund information in the balance sheet of the governmental funds at June 30, 2015.

Qualified Opinion

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on Governmental Funds" paragraph, the financial statements referred to above present fairly in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Yauco, as of June 30, 2015, and the respective changes in its financial position for the year then ended in accordance with the 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 **15** and **59** 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.

Other Matters (continued)

Required Supplementary Information (continued)

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Yauco' basic financial statements. The accompanying supplementary information – Financial Data Schedules shown in pages **61-62** are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 51-53 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non- Profit Organizations,* and is also not a required part of the basic financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2016, on our consideration of the Municipality of Yauco' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Municipality of Yauco' internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 18, 2016

Stamp No. 2728490 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Yauco** (the Municipality) was founded on the year 1756. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and a sixteen-member Municipal Legislature who are elected for a four-year term.

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

The basic financial statements of the Municipality have been prepared in conformity with Generally Accepted Accounting Principles as applied to local governmental units in the United States of America (US GAAP).

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. The Statement was adopted as of July 1, 2002. 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 new reporting requirement regarding the capitalization of local government infrastructure (roads, bridges, traffic signals, etc.). This requirement permits 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 the year ended June 30, 2006.

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.

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-related party transactions, going concern considerations, and subsequent events.

In fiscal year 2012, 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 components 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.

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

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 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".

A. Financial reporting entity

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

1. The primary government appoints a voting majority of the entity's governing body, and either:

    - A financial benefit/ burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.

2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.

3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

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

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

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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

3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

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

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

1. The component unit's governing body is substantively the same as the governing body of the primary government and there is either:

   - A financial benefit/ burden exist between the primary government and the entity or
   - Management of the primary government has operational responsibility for the primary government.

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.

3. The component unit's debt is expected to be paid by the primary government.

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

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

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

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

<u>Management's Discussion and Analysis</u>

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

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

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

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

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

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

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

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

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

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

Fund Financial Statements (FFS)

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

The Municipality reports the following major governmental funds:

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

Special Revenue Fund – HUD Grants – This fund is used to account for and report revenues sources received from the U.S. Housing and Urban Development that are restricted for expenditure for the activities performed under various programs including Community Development Block Grant – Entitlement Grants and Section 8 Housing Choice Vouchers, among others. These activities consist of providing services to low and moderate income persons, promoting the development of the community and providing housing opportunities.

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

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

C. Financial reporting presentation

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

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

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

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

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

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

C. Financial reporting presentation (Continued)

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

D. Deposits and investments

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

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

E. Restricted assets

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

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

F. Receivables and due from governmental entities

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

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

G. Interfund receivables and payables

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

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

H. Inventories

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

I. Capital assets

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

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

Description	Useful Life
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

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

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

J. Deferred outflows/inflows of resources

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

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

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

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met –** Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

3. **Deferred outflows/inflows of resources related to pensions –** Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

K. Long-term obligations

The liabilities reported in the government-wide financial statements included 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 and landfill closure and post closure care costs.

In the fund financial statements, governmental fund types recognize bond issuances cost, 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 in the general fund.

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

L. Compensated absences

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

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

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

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

L. Claims and judgments

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

M. Net position

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

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

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

M. Net position (continued)

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

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

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

L. Net position flow assumption

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

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

M. Fund balances

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

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

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

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

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

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

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

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

P. Fund balance flow assumptions

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

Q. 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.

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

R. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

a. **Operating transfers -** Legally required transfers that are reported when incurred as "Transfers-in" by the recipient fund and as "Transfers-out" by the disbursing fund.

b. **Intra-entity transactions -** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

S. Risk financing

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

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

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability.

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks by each employee covered by law.

T. Use of Estimates

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

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

U. 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 has not yet been determined.

W. Subsequent events

Subsequent events have been evaluated through March 17, 2016, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

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

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

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's 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, 2014, (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 by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized.

However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

Foreign exchange risk – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015. 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 $109,711 in the Special Revenue Fund – HUD Grants and $206,095 in the other governmental funds were fully collateralized at June 30, 2015.

The deposits at GDB of $3,468,026 in Debt Service Fund and $120,422 in the other governmental funds are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

3. RECEIVABLES

A. 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 Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return 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.

B. Sales tax - The $172,925 sales tax receivable represents filed sales tax returns that were uncollected as of June 30, 2015.

C. Other accounts receivable

The following amounts were recorded as of June 30, 2015:

	Amount
Solid waste disposal services	$ 124,069
Sale of land - Social housing project	33,000
Other	22,863
Total	$ 179,932

4. DUE FROM GOVERNMENTAL ENTITIES

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

	Commonwealth Government	Federal Government
Major fund – General fund:		
P.R. Department of Treasury – Christmas bonus reimbursement	$ 91,271	$ -
P.R. Department of Treasury - Penalty	130,993	
P.R. Department of Transportation (DTOP)	17,409	
P.R. Department of Family	29,488	
P.R. Department of Labor – Law 52	50,000	
Others	62,443	
Major fund – Debt service fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	563,854	
Other Governmental Funds:		
P.R. Office for the Improvements of Public Schools		61,466
	$ 945,458	**$ 61,466**

4. DUE FROM GOVERNMENTAL ENTITIES (CONTINUED)

B. Amounts due from federal government as of June 30, 2015 are as follows:

Description	Amount
General Fund:	
US COPS Hiring Program	$ 57,809
US Federal Transit Administration	63,749
US Department of Housing and Urban Development - HOPWA	5,839
Others	25,271
	$ 152,668

5. DUE TO GOVERNMENTAL ENTITIES

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

Description	Amount
General Fund:	
P.R. Department of Labor	$ 226,452
P.R. General Services Administration	577,465
P.R. Aqueduct and Sewer Authority (PRASA)	1,101,806
P.R. Retirement System Administration	325,463
Commonwealth of P.R. Employee Association	41,358
Internal Revenue Service	47,754
Others	315,369
	$ 2,615,667

6. INTERFUND TRANSACTIONS

A. Due from/to other funds

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

Funds	Receivable Funds	Payable Funds
General Fund	$ 319,800	$ -
Special Revenue Fund – HUD Grants	214,156	47,593
Other Governmental Funds	4,506,544	4,992,907
	$ 5,040,500	**$ 5,040,500**

6. INTERFUND TRANSACTIONS

B. Transfers-in (out)

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

Originating Fund	Receiving Fund	Purpose	Amount
General Fund	Debt Service Fund	Transfer of funds to cover debt service payments	$ 131,146
General Fund	Special Revenue Fund-HUD Grants	Transfer of funds to cover special funds outlays	126,495
General Fund	Other Governmental Funds	Transfer of funds to cover special funds outlays	275,986
Debt Service Fund	General Fund	Transfer to cover operational expenditures	1,723
Debt Service Fund	Other Governmental Funds	Available fund for commitments	546,145
Special Revenue Fund-HUD Grants	Other Governmental Funds	Transfer of funds foe special purpose	315,132
Total			**$ 1,396,627**

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7. FUND BALANCE

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

	General Fund	Special Revenue Fund HUD Grants	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
General government	$ -	$ -	$ -	$ 149,475	$ 149,475
Public works				2,136,343	2,136,343
Health and welfare				298,773	298,773
Culture and recreation				33,420	33,420
Economic development				24,274	24,274
Community development		365,193			365,193
Debt service			3,437,198		3,437,198
Committed					
General government				26,135	26,135
Public safety				196,743	196,743
Economic development				27,933	27,933
Unassigned	(5,662,881)			(6,809,383)	(12,472,264)
Total fund balances	$(5,662,881)	$ 365,193	$3,437,198	$ (3,916,287)	$ (5,776,777)

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7. CAPITAL ASSETS

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

Governmental Activities:	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital asset, not being depreciated:				
Land	$ 5,043,951		$ -	$ 5,043,951
Work of art	158,000			158,000
Total capital assets not being depreciated	5,201,951		-	5,201,951
Capital assets, being depreciated:				
Land improvements	800,308			800,308
Buildings improvements	8,403,761			8,403,761
Equipment	10,363,047	215,693		10,578,740
Infrastructure	81,412,671	2,072,552		83,485,223
Total capital assets being depreciated	100,979,787	2,288,245		103,268,032
Less accumulated depreciation for:				
Land improvements	(595,342)	(5,426)		(600,768)
Buildings improvements	(2,987,339)	(154,241)		(3,141,580)
Equipment	(5,740,709)	(669,763)		(6,410,472)
Infrastructure	(30,554,475)	(5,310,936)		(35,865,411)
Total accumulated depreciation	(39,877,865)	(6,140,366)		(46,018,231)
Total capital assets being depreciated, net	61,101,922	(3,852,121)		57,249,801
Governmental activities capital assets, net	$ 66,303,873	$(3,852,121)	$ -	$ 62,451,752

7. CAPITAL ASSETS (CONTINUED)

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

Governmental activities	Amount
General government	$ 110,370
Public safety	180,828
Public works	5,474,827
Culture and recreation	252,400
Health and welfare	121,941
Total depreciation expense-governmental activities	**$ 6,140,366**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Description	General Fund	Special Revenue HUD Grant	Other Governmental Funds	Total
Accounts payable	$ 1,519,278	$ 63,749	$ 3,989,328	$ 5,572,355
Accrued liabilities	315,452			315,452
Bank overdraft	37,523	-	-	37,523
Total	$ 1,872,253	$ 63,749	$ 3,989,328	$ 5,925,330

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

	Amount
General Fund:	
P.R. Department of Treasury – Christmas bonus reimbursement	$ 130,993
P.R. Department of Labor – Law No. 52	50,000
Others	91,271
Other governmental funds:	
P.R. Office for improvements of Public Schools	45,893
	$ 318,157

10. UNEARNED REVENUES

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

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	$ 1,746,510
	$ 1,746,510

11. LONG-TERM LIABILITIES

A. Summary of long-term debt activity

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

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds payable	$ 38,094,000	$ 525,000	$ (1,610,000)	$ 37,009,000	$ 1,704,000
Notes payable	3,831,000		(217,000)	3,352,000	218,000
Compensated absences	1,230,856		(404,043)	826,813	
Claims and judgments	757,254		(52,000)	705,254	
Landfill obligation	925,353			925,353	
Property tax debt- Law 146	95,969		(5,332)	90,637)	5,332
Department of Labor Unemployment	689,046		(162,738)	526,308	172,261
General Services Administration	437,457		(437,457)		
Puerto Rico Aqueduct and Sewer Authority	404,228		(404,228)		
Christmas bonus	196,507	159,403	(196,507)	159,403	196,507
CRIM final liquidation	172,140	64,562	(4,974)	231,728	172,140
Total	**$ 46,571,810**	**$ 748,965**	**$ (3,494,279)**	**$ 43,826,496**	**$ 2,468,240**

B. Legal debt margin

For general obligation debt, the Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment if 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 if the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds payable, is paid with unrestricted funds.

11. LONG-TERM LIABILITIES (CONTINUED)

C. General and special obligation bonds and notes

The Municipality issues general and special obligation bonds to provide funds for different purposes such as acquisition of equipment, construction of major capital facilities or for operational expenditures. During the current year, the Municipality issued bond for $525,000. Bonds payable outstanding at June 30, 2015 are as follows:

Description	Balance at June 30, 2015
1996 Serial bond for infrastructure improvement with an original amount of $4,585,000 due in installments of $100,000 to $435,000 through July 1, 2015, with interest ranging from 4.70% to 6.63%	$ 435,000
2000 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $857,000 due in installments of $19,000 to $57,000 through January 1, 2029, with interest ranging from 4.75%	597,000
2002 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $2,015,000 due in installments of $30,000 to $165,000 through July 2026, with interest ranging from 2.70% to 5.60%	1,375,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $670,000 due in installments of $5,000 to $50,000 through July 1, 2027, with interest ranging from 1.53% to 6.62%	450,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $376,000 due in installments of $9,000 to $24,000 through January 1, 2030, with interest ranging from 4.25%	270,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,091,000 due in installments of $25,000 to $69,000 through January 1, 2029, with interest ranging from 4.25%	745,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,000,000 due in installments of $20,000 to $75,000 through July 2027, with interest ranging from 4.17% to 5.31%	690,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,385,000 due in installments of $20,000 to $105,000 through July 2027, with interest ranging from 4.17% to 5.31%	985,000
2003 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $730,000 due in installments of 10,000 to $55,000 through July 2027, with interest ranging from 4.17% to 5.31%	515,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,005,000 due in installments of $20,000 to $75,000 through July 1, 2028, with interest ranging from 1.53% to 7.00%	690,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $495,000 due in installments of $10,000 to $35,000 through July 1, 2028, with interest ranging from 2.36% to 5.31%	360,000
2004 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $410,000 due in installments of $10,000 to $30,000 through July 1, 2028, with interest ranging from 4.17% to 5.31%	290,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $215,000 due in installments of $5,000 to $25,000 through July 1, 2020, with interest ranging from 1.53% to 7.50%	105,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $280,000 due in installments of $7,000 to $19,000 through January 1, 2030, with interest ranging from 4.50%	214,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $615,000 due in installments of $30,000 to $60,000 through July 1, 2019, with interest ranging from 2.43% to 6.62%	250,000
2005 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $85,000 due in installments of $5,000 to $15,000 through July 2019, with interest ranging from 3.28% to 4.73%	35,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,307,000 due in installments of $52,000 to $134,000 through July 1, 2021, with interest ranging from 1.53% to 7.00%	772,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $135,000 due in installments of $5,000 to $10,000 through July 1, 2031, with interest ranging from 2.43% to 7.00%	95,000
2007 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $155,000 due in installments of $10,000 to $20,000 through July 1, 2027, with interest ranging from 1.53% to 7.00%	40,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $3,785,000 due in installments of $60,000 to $305,000 through July 1, 2033, with interest ranging from 4.38% to 7.00%	3,255,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,417,000 due in installments of $99,000 to $192,000 through July 1, 2017, with interest ranging from 1.53% to 7.50%	537,000
2008 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $320,000 due in installments of $5,000 to $30,000 through July 1, 2032, with interest ranging from 1.53% to 7.50%	285,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2009 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $295,000 due in installments of $5,000 to $25,000 through July 1, 2028, with interest ranging from 1.53% to 5.40%	240,000
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $1,940,000 due in installments of $25,000 to $155,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	1,765,000
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $3,020,000 due in installments of $50,000,000 to $240,000 through July 1, 2034, with interest ranging from 4.75% to 7.00%	2,740,000
2010 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $680,000 due in installments of $10,000 to $60,000 through July 1, 2034, with interest ranging from 6.00% to 7.50%	625,000
2012 Special obligation bond for operational expenses with an original amount of $3,430,000 due in installments of $20,000 to $305,000 through July 1, 2033, with interest ranging from 6.00% to 7.50%	3,140,000
2012 Special obligation bond for operational expenses with an original amount of $4,656,000 due in installments of $31,000 to $391,000 through July 1, 2036, with interest ranging from 6.00% to 7.50%	4,351,000
2012 Special obligation bond for operational expenses with an original amount of $2,445,000 due in installments of $15,000 to $205,000 through July 1, 2034, with interest ranging from 6.00% to 7.50%	2,285,000
2013 Special obligation bond for operational expenses with an original amount of $5,753,000 due in installments of $10,000 to $498,000 through July 1, 2036, with interest ranging from 6.00% to 6.50%	5,723,000
2013 Special obligation bond for operational expenses with an original amount of $640,000 due in installments of $15,000 to $55,000 through July 1, 2031, with interest ranging from 6.00% to 6.50%	585,000
2012 Serial bond for infrastructure improvement with an original amount of $230,000 due in installments of $5,000 to $20,000 through July 1, 2037, with interest ranging from 6.00% to 7.5%	290,000
2012 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $305,000 due in installments of $5,000 to $30,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	295,000
2013 Special obligation bond for operational expenses with an original amount of $870,000 due in installments of $10,000 to $75,000 through July 1, 2037, with interest ranging from 6.00% to 7.50%	850,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2014 Special obligation bond for operational expenses with an original amount of $465,000 due in installments of $5,000 to $35,000 through July 1, 2038, with interest ranging from 6.00% to 7.00%	460,000
2014 Special obligation bond for operational expenses with an original amount of $150,000 due in installments of $5,000 to $10,000 through July 1, 2038, with interest ranging from 6.00% to 7.00%	145,000
2014 General obligation bond for acquisition, construction or improvement of capital asset with an original amount of $525,000 due in installments of $15,000 to $55,000 through July 1, 2033, with interest ranging from 6.00% to 7.50%	525,000
Total	**$ 37,009,000**

These bonds are payable from the ad valorem property tax of 1.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2008, amounting $3,785,000, the Series 2012, amounting $4,656,000 and the Series 2012, amounting $2,445,000 are payable with the revenues generated from the collection of the .002% of the municipal sales and use taxes redemption fund. The Series 2003 amounting $670,000, Series 2004 amounting $1,005,000 and the Series 2005 amounting $215,000 are payable with general fund resources.

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

Year Ending June 30,	Principal	Interest
2016	$ 1,684,000	$ 1,815,602
2017	1,374,000	2,056,526
2018	1,437,000	2,099,129
2019	1,427,000	2,020,439
2020	1,534,000	1,931,094
2021-2025	8,485,000	8,431,365
2026-2030	9,969,000	5,576,119
2031-2035	9,025,000	2,255,937
2036-2040	2,074,000	151,168
Total	**$ 37,009,000**	**$ 26,337.379**

10. LONG-TERM LIABILITIES (CONTINUED)

D. Notes Payable

The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2015
2010 Series	2016	327,000	6.00% to 7.50%	112,000
Section 108 Note	2028	4,000,000	.002%	3,352,000
Total notes payable				**$ 3,614,000**

The Section 108 notes is payable with Community Development Block Grant – Entitlement Program and General Fund sources of revenues. The Series 2008 notes are payable from the special ad valorem property tax of 2.50% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The Series 2010 note is payable with the revenues generated from the collection of the .002% of the municipal sales and use taxes redemption fund.

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

Year Ending June 30, 2015	Principal	Interest
2016	$ 273,000	$ 13,070
2017	276,000	9,710
2018	220,000	8,000
2019	221,000	8,000
2020	223,000	8,000
2021-2025	1,125,000	40,000
2026-2030	1,127,000	40,000
Total	**$ 3,246,000**	**$ 126,780**

E. Compensated Absences- The government-wide statement of net position includes approximately $406,860.79 of accrued sick leave benefits, and approximately $419,951.53 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

F. Claims and Judgments – These amounts represent the balance related to legal claims at June 30, 2015, as described in Note 16.

G. Landfill Obligations – 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. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. Based on this study, the Municipality has recognized $925,353 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2015. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net position.

10. LONG-TERM LIABILITIES (CONTINUED)

H. Property tax debt – Law No. 146 – On September 24, 2002, the CRIM, on behalf of the municipalities of Puerto Rico, entered into a financing agreement with GDB pursuant to the provisions of Law No. 146 of October 11, 2001. The purpose of this financing agreement was to extinguish in advance certain bonds payable issued by the Public Finance Corporation, a subsidiary of the GDB, which were originally issued to pay certain property tax receivables owned by the municipalities of Puerto Rico through 1996. The outstanding balance of the note payable to the CRIM at June 30, 2015 amounted to $90,637

I. Department of Labor Unemployment repayment plan - This amount represents the balance owed to the Department of Labor regarding a new repayment plan made during 2013-2014. The balance at June 30, 2015 of this agreement was $526,308.

J. General Service Administration - This amount represents the balance owed to the General Services Administration regarding a repayment plan made during 2014-2015.

K. Interagency Agreement – During fiscal year 2012-2013, the Municipality entered into an Interagency Agreement with Puerto Rico Aqueduct and Sewer Authority, for the payment of the Municipality’s debt for water and sewer services.

L. 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 $159,403.

M. Property tax advances – This amount represents the balance owed to the Municipal Revenue Collection Center (CRIM) at June 30, 2015. The outstanding amount is 231,728.

11. LANDFILL OBLIGATION

According to the regulations set forth by the U.S. Environment Protection Agency (EPA) in its “Solid Waste Disposal Facility Criteria”, issued on October 9, 1991, the Municipality is required to place a final cover on the Municipality’s landfill site when it stops accepting waste, and to perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB No. 18, the Municipality has to perform a study of the activities that need available space and to comply with applicable state and federal regulations. The Municipality has recorded an estimate liability of $925,353 in the accompanying GWFS, using estimated current costs allocated, based on an estimate of the actual landfill capacity used at June 30, 2015. Actual costs may be different to the recorded estimated liability due to inflation, changes in technology, or changes in Acts and regulations. At June 30, 2015, the Municipality’s has not updated the study of the activities that need to be implemented at the Municipality’s solid waste landfill facilities and has not adjusted and estimated liability in accordance with that study.

12. PROPERTY TAXES

The personal property tax is self-assessed by the taxpayer on a return which is to be filed by May 15 of each year with the Municipal Revenue Collection Center (CRIM), a governmental entity created by the government of Puerto Rico as part of the Municipal Governmental Autonomous Law of 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 collect for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections, as modified by the quarterly revisions of estimates required law. The CRIM is required by law to prepare a liquidation statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This preliminary liquidation has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final liquidation made not later than six months after year-end, subject to the verification by its Independent Auditors. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

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 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. 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 have 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, which authorizing the CRIM, among other things, to sell the property tax receivables related to taxpayers who owed 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 o 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.

12. PROPERTY TAXES (CONTINUED)

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.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first $ 150,000 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.

The annual tax rate is 8.58% for real property and 6.58% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 5.8% and 3.8%, respectively, represents the Municipality's basic property tax rate which is appropriated for basics and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected and such amount is accounted for similar to item (a) above.

13. 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.

13. SALES AND USE TAXES (CONTINUED)

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

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

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

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

13. SALES AND USE TAXES (CONTINUED)

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

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

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

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

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.

14. 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 x .25%).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. 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.

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).

14. PENSION PLAN (CONTINUED)

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

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.

15. 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.

16. COMMITMENTS AND CONTINGENCIES

A. Federal Grants:

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

B. Claims and lawsuits:

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

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately $705,524 for awarded or anticipated unfavorable judgments in the Government–Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

It is management's opinion, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

17. RESTATEMENT OF NET POSITION

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

a. Government-Wide Financial Statements

Description	Government-Wide Statement
Net position, beginning	$ 17,766,347
Overstatement of bonds and notes payable	(376,651)
Net position - beginning, as restated	$ 17,389,696

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).

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	$ 3,929,339	$ 3,929,339	$ 3,873,339	$ (56,000)
Municipal license tax	2,608,469	2,608,469	3,066,599	458,130
Licenses, permits and other local taxes	513,500	513,500	651,532	138,032
Charges for services	5,000	5,000	-	(5,000)
Intergovernmental	6,117,039	6,117,039	6,005,268	(111,771)
Fines and forfeiture	100,000	100,000	219,971	119,971
Rent of property	49,400	49,400	64,423	15,023
Interest	10,000	10,000	11,607	1,607
Miscellaneous	288,167	288,167	246,934	(41,233)
Total revenues	13,620,914	13,620,914	14,139,673	518,759
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	6,575,981	6,575,981	8,768,073	(2,192,092)
Public safety	2,651,139	2,651,139	2,660,773	(9,634)
Public works	1,907,914	1,907,914	1,900,700	7,214
Health and welfare	300,262	300,262	15,252	285,010
Culture and recreation	1,685,528	1,685,528	1,815,811	(130,283)
Education	341,665	341,665	441,456	(99,791)
Operating transfer to other funds	158,425	158,425	533,627	(375,202)
Total expenditures, encumbrances and other financing uses	13,620,914	13,620,914	16,135,692	(2,514,778)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ (1,996,019)	$ (1,996,019)

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis) “available for appropriation” from the budgetary comparison schedule	$ 14,139,673
Differences-budget to GAAP:	
Non-budgeted transfer in	1,723
GAAP adjustments to revenues	86,077
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$ 14,227,473
Uses/outflows of resources:	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	$ 16,135,692
Differences-budget to GAAP:	
GAAP adjustments to expenditures	(764,808)
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 15,370,884

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

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

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

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

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	BALANCE SHEET	
Assets	**Current Assets Cash**	
111	Cash - Unrestricted	$ 9,830
113	Cash - Other Restricted	30,289
100	**Total Cash**	40,119
121	Accounts Receivable - PHA Projects	1,784
124	Account Receivable – Other Government	2,770
150	**Total Current Assets**	44,673
190	**Total Assets**	44,673
290	**Total Assets and Deferred Outflow of Resources**	$ 44,673
Liabilities and Equity	**Liabilities**	
	Current Liabilities:	
312	Accounts Payable <= 90 days	32,938
310	**Total Current Liabilities**	32,938
300	**Total Liabilities**	32,938
400	**Deferred Inflow of Resources**	-
Equity	**Equity**	
508.4	Net Investment in Capital Assets	-
511.4	Restricted Net Position	3,973
512.4	Unrestricted Net Position	7,762
513	**Total Equity - Net Assets/Position**	11,735
600	**Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position**	$ 44,673

See notes to the Financial Data Schedule.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	INCOME STATEMENT	
70600	HUD PHA Operating Grants	$ 462,721
71500	Other Revenues	61,199
70000	**Total Revenues**	523,920
	Expenses Administrative:	
91100	Administrative Salaries	50,714
91200	Auditing Fees	2,930
91500	Employee Benefit Contributions - Administrative	8,005
91600	Office Expenses	1,831
93800	Other Utilities Expenses	1,439
91000	**Total Operating - Administrative**	64,919
96900	**Total Operating Expenses**	64,919
97000	**Excess of Operating Revenue over Operating Expenses**	459,001
97300	Housing Assistance Payments	388,016
97350	HAP Portability-In	52,742
90000	**Total Expenses**	505,677
10000	**Excess (Deficiency) of Total Revenues Over (Under) Total Expenses**	$ 18,243
	Memo Account Information:	
*11030	Beginning Equity	$ (6,508)
*11170	Administrative Fee Equity	7,762
*11180	Housing Assistance Payments Equity	3,973
*11190	Unit Months Available	1,140
*11210	Number of Unit Months Available	1,107

See notes to the Financial Data Schedule.

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grant	10.433	N/A	$ 393
Total U.S. Department of Agriculture			**393**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Pass-through the Commonwealth of Puerto Rico - (OCAM):			
CDBG Program – Neighborhood Stabilization Program (HERA) (NSP3)	14.228	11-NP-LH-68-001 11-NP-LM-68-002	210,907
CDBG Program-Disaster Recovery	14.228	Not Available	131,377
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218	N/A	802,118
Emergency Shelter Grants Program	14.231	N/A	27,714
Section 8 Housing Choice Voucher Program	14.871	N/A	527,009
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	53,230
Total U.S. Department of Housing and Urban Development			**1,752,355**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S DEPARTMENT OF JUSTICE			
Pass-through the Commonwealth of Puerto Rico Department of Justice:			
Community Oriented Policing Services	16.710	Not Available	372,611
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736	Not Available	22,837
ARRA-Edward Byrne Justice Assistance Grant (EBJAG) (Recovery Act Funded)	16.803	Not Available	1,449
Total U.S Department of Justice:			**396,897**
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through the Commonwealth of Puerto Rico – Department of Transportation:			
Federal Transit Investment Grant	20.500	Not Available	853,763
Total U.S. Department of Transportation			**853,763**
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):			
Child Care and Development Block Grant	93.575	Not Available	337,620
Total U.S. Department of Health and Human Services			**337,620**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico-Governor Authorized Representative (GAR):			
Disaster Grants – Public Assistance	97.036	Not Available	237,944
Total U.S. Department of Homeland Security			**237,944**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 3,578,972**

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. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule are included in the Special Revenue – Head Start, and in the Other Governmental Funds in the Municipality's fund financial statements. The reconciliation between the expenditures in the funds financial statements and expenditures in the Schedule of Expenditures of Federal Awards is as follows:

Description	Special Revenue Fund-HUD Grants	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	$ 1,757,464	$ 1,821,508	$ 3,578,972
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program	42,956		42,956
Non federal programs expenditures	-	8,425,187	8,425,187
Total expenditures in the basic financial statements	**$ 1,800,420**	**$ 10,246,695**	**$ 12,047,115**

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

**To the Honorable Mayor
and the Municipal Legislature
Municipality of Yauco
Yauco, 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 Yauco, Puerto Rico, (Municipality) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 18, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item **2015-001 thru 2015-005** to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Municipality of Yauco's Response to Findings

The Municipality's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Municipality'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.

We noted certain other matters that we reported to management of the Municipality of Yauco in a separate letter dated March 18, 2016.

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 Standard* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 18, 2016

Stamp No. 2728491 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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Certified Public Accountants / Management Advisors

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each Municipality of Yauco'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 the Municipality of Yauco's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

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

Other Matters

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

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

Report on Internal Control over Compliance

Management of the Municipality of Yauco 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 Yauco's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 Yauco's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items **2015-006** thru **2015-006**.

We also noted other matters involving the internal control over compliance and certain immaterial instance of noncompliance, which we have reported to management of the Municipality of Yauco in a separate letter dated March 18, 2016.

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

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

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 18, 2016

Stamp No. 2728492 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified in the FFS and Qualified in the GWFS	
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	No X

Federal awards

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

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant-Entitlement Grant
20.507	Federal Transit – Formula Grants
93.575	Child Care and Development Block Grant
97.036	Disaster Grants – Public Assitance

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.
Status:	Still in process Implementation Date: During fiscal year 2016-2017 Responsible Person: Mrs. Mayra 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 deficit of $ 5,662,881 in the general fund as presented in the balance sheet – governmental funds. The Municipality does not provide sufficient resources in the budget of the fiscal year 2014-2015 to amortize the accumulated deficit.
Criteria	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. 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. Section 3 of the revised regulation over Basic Standards for Municipalities of Puerto Rico (The regulation) states that it must be special care to prepare the revenues estimates so these do not results in budget appropriations in excess of available resources.
Cause of Condition	The overstatement of estimated revenues and/ or the incurrence of obligations without credits available of this approved budgetary accounts caused the Municipality to operate with a deficit for several years.
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 the Municipality to evaluate the adequacy of the provision for deficit reserve accounts in the next fiscal budget. 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 Finding

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

Management Response and Corrective Action

The Municipality of Yauco lacks economical resources to cover its basics necessities. In addition, the operational expenses such, as gasoline and utilities have had a dramatic increase during the last fiscal years. However, for our people's pride, we have done the biggest monumental work projects in the history of this city. To control the Municipal operational expenses we reduced the employees working hours, we eliminated regular positions, we eliminated overtime pay, and we also eliminated travel expenses including meals and cellular cost will continue taking the necessary measures to correct this situation.

Implementation Date: July, 2016

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section II – Financial Statements Finding

Finding Reference **2015-003**

Requirement **Accounting Records- Municipal Solid Waste Landfill Closure and Post-closure Care and Maintenance Costs**

Statement of Condition The Municipality did not adjust in its government wide financial statements, the required liability for closure and post closure costs based on an adequate study of the activities of the solid waste landfill.

At June 30, 2015, the Municipality did not perform the required study of the available space and the estimated cost of the closing and post-closing of the Municipality's waste landfill. In addition, the amount of expenses recorded in the financial statements is based on an estimate made by the Municipality's management.

Criteria Regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria"; the Municipality is required to place a final cover on the Municipality's 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. Based on this study, the Municipality must recognize a liability in its statement of net position at June 30, 2015.

Cause of Condition The Municipality did not maintain an adequate control of the accountability of the closure and post closure care costs of Municipal 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 U.S. Environmental Protection Agency.

Recommendation We recommend management to perform the study of the activities that need to be implement at the Municipality's solid waste landfill facilities and determine the amount of the liability that should be report in the governmental activities.

Questioned Cost None

Management Response and Corrective Action We will revise the landfill study in order to assure that the liability calculations are made according to federal regulations.

Implementation Date: July 2016

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section II – Financial Statements Findings

Finding Reference	**2015-004**
Requirement	**Accounting Records – Interfund Transactions**
Statement of Condition	The Municipality does not maintain complete and accurate record of the interfund cash transactions and the corresponding due from and due to account balances. During our examination of the accounting records, we noted that the Municipality does not maintain a complete and accurate subsidiary record to account for the interfund transactions, presented in the Balance Sheet for the amount of $5,040,500 as of June 30, 2015.
Criteria	Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) Article 8.010 (C) (2) and (3) stated that the Municipality should maintain accurate accounting records and funs controls.
Cause of Condition	The Municipality did not maintain an adequate control of the accountability of the interfund transactions and the due from and due to account balances.
Effect of Condition	The Municipality is not in compliance with Chapter VIII, Article 8.004 (C) and Article 8.010 (C) (2) (3) of the State Act No. 81.
Recommendation	We recommend to the management to implement procedures in order to obtain and maintain an accurate subsidiary record that supports the interfund transactions.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, we are identifying the origin of all the interfund transaction that are not properly documented and will proceed to realize the necessary adjusting entries.

Implementation Date: June, 2016

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section II – Financial Statements Findings

Finding Reference **2015-005**

Requirement **Municipal license tax revenues**

Statement of Condition Municipal license tax revenues of the fiscal year 2015-2016, which were collected in advance from taxpayers between January 1 through June 30, 2015 (known in Spanish as "Patente en Suspenso"), were used by the Municipality to cover certain operating costs and cash flows shortages of the general fund during the fiscal year ended June 30, 2015. Those unearned revenues collected in advance pertain to the general fund's operating budget of the fiscal year 2015-2016, and must not be used to pay obligations of the prior year.

Criteria Article 8.004(b) of Law No. 81 of August 30, 1991, known as the Autonomous Municipalities Act of Puerto Rico (Law No. 81) states that the Municipality cannot use or obligate any amount in a given fiscal year that exceeds the appropriations and the resources authorized by ordinance or resolution for such fiscal year. In addition, the Municipality cannot be committed, in any form, to any contract or negotiation for the future payment of amounts that exceed the current fiscal year's budgeted resources.

Cause of Condition The foregoing condition is primarily due to the facts that the Municipality does not prepare cash flows forecasts and projections to anticipate any cash flows shortage. Management does not have timely and accurate information regarding its operations and cannot monitor the adherence to the established budget appropriations and cash flows.

Effect of Condition This situation will result in possible significant general fund limitations and eventual reduction or elimination of municipal services since future revenues were used to pay for accumulated liabilities.

Recommendation We recommend Municipality prepares cash flows forecasts and projections to anticipate any cash flows shortages and to avoid using financial resources of future fiscal years to cover the operating needs of the current fiscal year.

Questioned Costs None

Management Response and Corrective Action With the implementation of corrective actions detailed in Finding 2015-001, we expect to avoid or, at least, reduce the use of the license tax revenues collected in advance, in future fiscal years.

Partially Corrected

Implementation Date: During Fiscal Year 2015-2016

Responsible Person: Mrs. Mayra Ortiz
Finance Department Director

Section III – Major Federal Award Program Findings and Questioned Cost

Finding Reference	**2015-006**
Program	**CDBG – Entitlement Grants Cluster; Community Development Block Grant-Entitlement Grants (CFDA No. 14.218) U.S. Department of Housing and Urban Development**
Requirement	**Special test and provisions – Housekeepers activity**
Statement of Condition	We performed a housekeeper activity test of six (6) participant's files and found that in the six (6) participant's files, although we did find evidence where not have the housekeepers sign, that visits were performed during the contract period, the program staff did not visit at least the participant's housing unit to ensure the quality of services, according to operational guide established by pass-through entity.
Criteria	Code of Federal Regulations 24, Section 570.484 states that the Municipality must assure that the program funds benefit very low, low- and moderate income persons and retain documentation justifying its certification. Also, the Municipality has an operational guide that includes all procedures and program's requirements for housekeeper activities.
Cause of Condition	The Municipality's controls and procedures failed to assure that the participant's files include all the required documents to comply with the program requirements.
Effect of Condition	The Municipality is not in compliance with the Code of Federal Regulations 24, Section 570.484 and with the operational guide.
Recommendation	We recommended management to follow the procedures established by the Office of the Commissioner of Municipal Affairs (OCAM) in the procedures manual, incluiding the use of the forms included on it.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2015-006 (Continued)**
Questioned Costs	None
Management Response and Corrective Action	The Program staff with the responsibilities to maintain the participants' files in compliance with the Program regulations was required to take corrective actions in order to assure application of all of the procedures according to the guide "Guía Operacional para la Prestación del Servicio de Auxiliares en el Hogar". Regarding the required visits, a revised Guide has been submitted to OCAM reducing the number of visits to one (1), which be applied prospectively. Also, the Program staff will be monitoring frequently for compliance, by the Federal Programs Department Director. Implementation Date: July, 2016 Responsible Person: Mrs. Enid Vera – Federal Program Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2015-007**

Program **Federal Transit Investment Grant (CFDA No. 20.500) Department of Transportation**

Requirement **Davis-Bacon Act**

Statement of Condition During our Davis-Bacon test, we evaluated three (3) contracts issued during fiscal year 2014-2015 for constructions and rehabilitations. The following will summarize the exceptions noted:

a. In one (1) project the documentation were not available for our examination.

Criteria Davis-Bacon Act, as amended DOL (40 USC 276 (a) to 276 a-7) states that employers are required to maintain records containing certain identification, payroll, and hours worked information for all employees who are not exempt from the minimum wage and overtime standards.

Cause of Condition The Program internal controls failed to apply all monitoring system procedures developed to test applicable contractors with respect to payment of prevailing wages.

Effect of Condition The Program is not in compliance with Davis-Bacon Act, as amended, DOL (40 USC 276a - 276a-7).

Recommendation We recommend that the Municipality should establish procedures to monitor the enforcement of the Act's regulation. Those procedures would include the following:

- Provide basic training and technical support to contractors to ensure that they understand their obligations under prevailing wage and reporting requirements.

- Monitoring system procedures developed, including obtaining contractors and subcontractors weekly payrolls to be reviewed on a weekly basis by the responsible municipal employee.

Questioned Costs None

Management Response and Corrective Action As a corrective action the Program will prepare a new procedure to delineate the thresholds, responsibilities of data collection and reporting of Davis Bacon. The procedure will verify that all contractors and subcontractors performing construction work with FTA funds pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area.

Implementation Date: July 2016

Responsible Person: Mrs. Sandra Nazario Camacho
Federal Programs Director

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
14-04	14.218	During fiscal year 2013-2014, the Municipality performed a contract related with asphalt services that state a term of three months ending on February 2014. After our audit procedures, we noted that the project was finished on May 2014 and the Municipality failed to amend the contract to assign an extension of time. Corrective action has been taken.
14-05	14.218	During our examinations of the twelve (12) files related with housing rehabilitation activities performed during fiscal year 2013-2014, we noted the following situations: a. In eleven (11) cases the housing rehabilitation was not performed in the term established in the contract. The rehabilitation exceeded the time limit by 51 to 217 days after the 90 days term. Corrective action has been taken.
13-03	14.218	During the fiscal year 2012 – 2013, the Davis Bacon documentation were not available for our audit examination. Corrective action has been taken.
13-04	20.507	During the fiscal year 2012 – 2013, the Davis Bacon documentation were not available for our audit examination. No corrective action has been taken. The auditors reissued the finding in the current year. See Finding Reference: **2015-007**
13-05	97.036	During the fiscal year 2012 – 2013, the Davis Bacon documentation were not available for our audit examination. Corrective action has been taken.
12-03	14.218	During our Cash Management test, we noted that the Municipality requested funds that were not disbursed on a reasonable lapse of time. We selected a sample of seven (7) requisitions (a total of $141,883) and found the following exception: a) In four (4) requisitions (a total of $121,262) we observed that the Municipality did not make the disbursements in a reasonable lapse of time. Corrective action has been taken.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-05	97.036	During our Davis-Bacon Act test, we verified five (5) construction projects. The following will summarize the exceptions noted: a) We noted that during the fiscal year 2011-2012, the Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wages paid. b) We did not obtain evidence that the Municipality's monitors and certified the weekly payroll supplied by the contractors. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.