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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF TOA ALTA**

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

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**Year Ended June 30, 2014**

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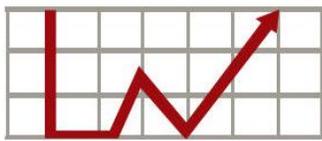
Municipality of Toa Alta, PO Box 82, Toa Alta, Puerto Rico 00954  
Hon. Clemente Agosto Lugardo

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*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**Member of:**

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

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta**, Puerto Rico (the Municipality), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 includes involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation financial statements.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Basis for Qualified Opinion on Governmental and Business-Type Activities***

As discussed in Note 10, the capital assets of governmental activities and business-type activities reported in the statement of net position, at a total amount of \$79,804,865, net of accumulated depreciation of \$56,366,174, could be materially misstated since we were unable to ascertain by other audit procedures the completeness of the balances reported. In addition, 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 costs 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, except for the effect of the matter described in the “Basis for Qualified Opinion” paragraph, if any, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the **Municipality of Toa Alta**, Puerto Rico, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Municipality of Toa Alta**, Puerto Rico, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages **4** through **11** and **65** be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Toa Alta's** basic financial statements. The accompanying supplementary information – Financial Data Schedule shown in pages **67** and **68** is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not required part of the financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages **70** and **71** is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other 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 financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2015, on our consideration of **Municipality of Toa Alta's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Toa Alta's** internal control over financial reporting and compliance.

*López Vega, CPA PSC*

**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
August 25, 2015

Stamp No. 2705483 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

This discussion and analysis of the **Municipality of Toa Alta (the Municipality)** financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2014. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2013. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

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

## FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2014 deserve special mention:

1. Total assets of the Municipality amounted to \$83,749,115, which represents an increase of 4% compared to prior fiscal year.
2. At the end of fiscal year 2014, total liabilities amounted to \$56,944,880. Out of said amount, \$49,816,987 corresponded to long-term liabilities of which \$38,493,000 represents the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position of the Municipality amounted to \$26,804,235, which represents an increase of 18% compared to prior fiscal year.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to \$27,260,836 derived from the following sources: \$2,100,160 charges for services; \$1,723,577 from operating grants and contributions; \$2,329,490 from capital grants and contributions, \$21,107,609 from general revenues and special items available.
5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to \$23,219,214.

### **FINANCIAL HIGHLIGHTS (CONTINUED)**

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure by \$4,041,622.
7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of \$17,968,462.
8. As of the end of the current fiscal year, the Municipality's general fund deficit amounted to \$1,959,094, compared to a deficit of \$3,677,400 in the prior fiscal year, as restated.
9. The actual General Fund budgetary activities resulted in an unfavorable balance of \$153,283

### **FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION**

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2014. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

Under the aforementioned approach, assets and liabilities are recognized using the accrual basis of accounting, which is similar to the method used by most private enterprises. This means that current year's revenues and expenses are accounted for regardless of when cash is received or paid.

### **FINANCIAL STATEMENTS COMPONENTS**

The basic financial statements consist of the government-wide financial statements, the major funds financial statements and the notes to the financial statements which provide details, disclosure and description of the most important items included in said statements.

The Statement of Net Position reflects information of the Municipality as a whole of a consolidated basis and provides relevant information about its financial strength as reflected at the end of the fiscal year. Such financial level is measured as the difference between total assets and liabilities, with the difference between both items reported as net position. It is important to note that although municipalities as governmental public entities were not created to operate under a profit motive framework, the return on assets performance plays an important role in their financial operations. The higher the increments achieved in net revenues, the higher the capacity to increase the net position figure either through additional borrowings or through internally generated funds. This in turn will benefit the welfare of the Municipality of Toa Alta's constituents.

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

## FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2014, shows total expenses incurred to afford the cost of all functions and programs amounted to \$23,219,214. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that \$6,153,227 was derived from the following sources: \$2,100,160 charges for services; \$1,723,577 from operating grants and contributions; and \$2,329,490 from capital grants and contributions. General revenues and special items for the year amounted to \$21,107,609. There was an excess of revenues over expenses in the amount of \$4,041,622, which contributed with the increase to the figure of net position attained at the end of the fiscal year.

The Fund Financial Statements are another important component of the Municipality's financial statements. A fund is a grouping of related accounts that are used to maintain accountability and controls over economic resources of the Municipality that have been segregated for specific activities. The municipal fund type of accounting is used to demonstrate compliance with related legal requirements. Information offered through this Statement is limited to the Municipality's most significant funds and is particularly related to the local government only, instead of the government as a whole. Government funds are used to account for essentially the same functions as those reported as governmental activities. The funds are reported using an accounting method known as modified-accrual accounting, which measures cash and all other financial assets that can be readily converted into cash.

The fund statement approach gives the user a short term view of the Municipality's government operations and the basic services it provides. Since the focus of government funds is narrower than that of the financial statements as a whole, it also helps the user with comparable information presented in the governmental activities report. By doing so, readers of the basic financial statements may understand better the long-term effect of the Municipality's short-term financial decisions.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may be better understand the long-term impact of the Municipality's near term financial decisions. The Government Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## INFRASTRUCTURE ASSETS

Historically, a significant group of infrastructure assets (such as roads, bridges, traffic signals, underground pipes not associated with utilities, etc.) have not been recognized nor depreciated in the accounting records of the Municipality. GASB 34 requires that such type of assets be inventoried, valued and reported under the governmental column of the Government-Wide Statement. The Municipality implemented the capitalization of infrastructure since July 1, 2002.

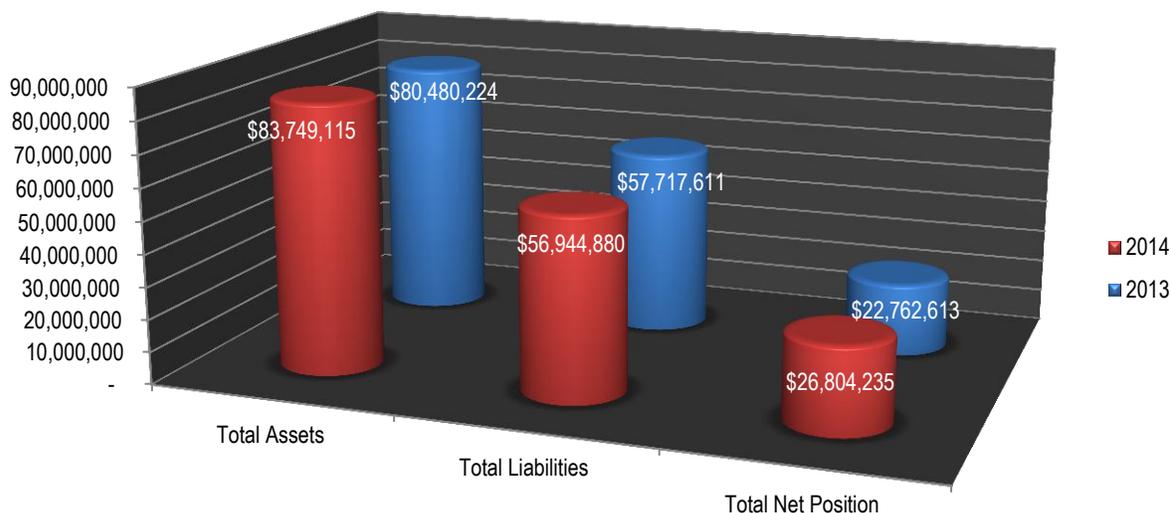
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management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

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

**Net Position**

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Toa Alta**, the primary government's assets exceeded its total liabilities by \$26,804,235 at the end of 2014, compared to \$22,762,613 at the end of the previous year, as restated, as showed in the following condensed Statements of Net Position of the Primary Government.

Condense Statements of Net Position	2014	2013	Change	%
Current and other assets	\$ 27,382,941	\$ 29,466,826	\$ (2,083,885)	(7%)
Capital Assets	56,366,174	51,013,398	5,352,776	10%
<b>Total Assets</b>	<b>83,749,115</b>	<b>80,480,224</b>	<b>3,268,891</b>	<b>4%</b>
Current and other liabilities	7,127,893	7,593,287	465,394	6%
Long-term liabilities	49,816,987	50,124,324	307,337	1%
<b>Total Liabilities</b>	<b>56,944,880</b>	<b>57,717,611</b>	<b>772,731</b>	<b>1%</b>
Net investment in capital assets	28,721,537	27,678,795	1,042,742	(4)%
Restricted	10,799,193	10,051,977	747,216	(7)%
Unrestricted (deficit)	(12,716,495)	(14,968,159)	2,251,664	(15)%
<b>Total net position</b>	<b>\$ 26,804,235</b>	<b>\$ 22,762,613</b>	<b>\$ 4,041,622</b>	<b>18%</b>



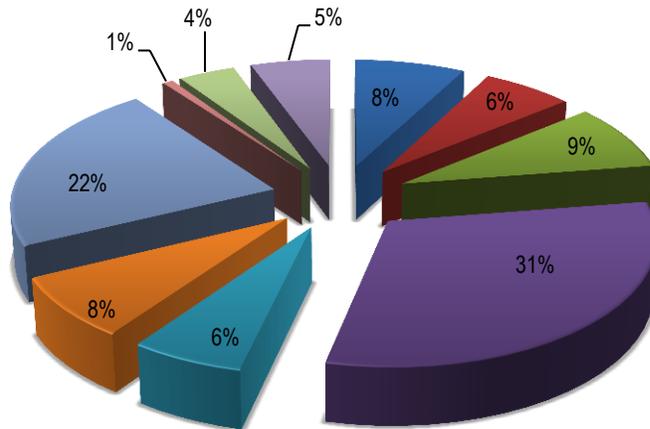
**FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)**

Approximately 46 percent of the Municipality's total revenue came from taxes, while 37 percent resulted from grants and contributions, including federal aid. Charges for Services provided 8 percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 43 percent, and health, public work and sanitation 14 percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condense Statements of Activities	2014	2013	Change	%
Program revenues:				
Charges for services	\$ 2,100,160	\$ 2,129,596	\$ (29,436)	(1%)
Operating grants and contributions	1,723,577	3,417,280	(1,693,703)	(50%)
Capital grants and contributions	2,329,490	2,242,239	87,251	4%
General revenues:				
Property taxes	8,465,666	7,040,398	1,425,268	20%
Municipal license tax	1,685,300	1,396,158	289,142	21%
Construction excise taxes	194,674	677,251	(482,577)	(71)%
Municipal sales and taxes	2,162,099	1,927,460	234,639	12%
Grants and Contributions	6,023,673	5,838,823	184,850	3%
Interest	804,404	1,094,166	(289,762)	(26)%
Miscellaneous	271,793	213,759	58,034	27%
Special Items:				
Property taxes from review of prior years CRIM settlements	1,500,000		1,500,000	100%
Total revenues	<u>27,260,836</u>	<u>25,977,130</u>	<u>1,067,412</u>	5%
Expenses:				
General government	\$ 9,911,960	\$9,833,916	\$ 78,044	1%
Public safety	2,128,802	2,311,686	(182,884)	(8)%
Health, public work and sanitation	3,212,811	1,913,348	1,299,463	68%
Culture, recreation and education	1,113,471	1,890,024	(776,553)	(41)%
Public housing and welfare	1,859,704	1,464,776	394,928	27%
Urban and economic development	2,899,809	5,523,033	(2,623,224)	(47)%
Interest on long-term debt	2,092,657	2,042,184	50,473	2%
Total expenses	<u>23,219,214</u>	<u>24,978,967</u>	<u>(1,759,753)</u>	(7%)
Change in net position	4,041,622	998,163	3,043,459	305%
Net position, beginning, as restated	<u>22,762,613</u>	<u>21,764,450</u>	<u>998,163</u>	5%
Net position, end of year	<u>\$ 26,804,235</u>	<u>\$ 22,762,613</u>	<u>\$ 4,041,622</u>	18%

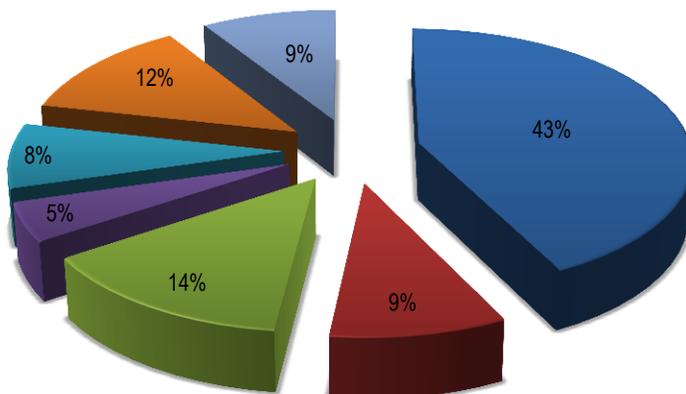
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Revenues 2014



- Charges for services- 8%
- Operating grants and contributions- 7%
- Capital grants and contributions- 9%
- Property taxes- 31%
- Municipal license tax- 6%
- Municipal sales and use tax- 8%
- Grants and contributions not restricted to specific programs- 22%
- Construction excise taxes- 1%
- Interest and Miscellaneous Revenues- 4%
- Special items prior years- 6%

Expenses 2014



- General Government- 43%
- Public safety- 9%
- Health, public works and sanitation- 14%
- Culture, recreation and education - 5%
- Public Housing and Welfare- 8%
- Urban and economic development- 12%
- Interest on long-term debt- 9%

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

### Governmental Funds

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of \$17,968,462, a decrease of \$2,096,512 in comparison with the prior year, as restated. There are restrictions of fund balance amounting to \$19,927,556. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions: 1) to pay for capital improvements \$12,760,118; 2) to pay for debt service, \$3,464,680; and 3) for special purposes \$3,702,758.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2014, the general fund has a deficit fund balance of \$1,959,094.

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's original and final budget amounted to \$16,872,188 which represents a decrease of 10%, when compared to the 2012-2013 budget.

The actual General Fund budgetary activities resulted in an unfavorable balance of \$153,283, mainly due to a negative variance in revenues of \$804,721, which was offset by a positive variance in expenditures of \$651,438.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Municipality's investment in capital assets as of June 30, 2014, amounts to \$79,804,865, with an accumulated depreciation of \$23,438,691 (including depreciation charges for the year totaled \$2,666,162), leaving a net book value of \$56,366,174. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishings, computers and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2014, the Municipality has \$10,848,363 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

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

### **Debt Administration**

The Commonwealth of Puerto Rico Legislature has established a limitation for the issuance of general obligation municipal bonds and notes for the payment of which the good faith, credit and taxing power of each municipality may be pledged.

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 provides that a Municipality has sufficient "payment capacity" to incur additional general obligation debt if the deposits in such municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity"). The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

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

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

### **FINAL COMMENTS**

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

### **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Finance Director.

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Assets</b>			
Cash and cash equivalents	\$ 9,045,758	\$ 96,125	\$ 9,141,883
Cash with fiscal agent	17,064,969		17,064,969
Receivables, net:			
Municipal license taxes	732		732
Sales and use taxes	290,566		290,566
Others	6,700	70,466	77,166
Due from:			
Commonwealth Government	640,229		640,229
Federal Government	57,396		57,396
Business-type activities	110,000		110,000
Capital assets			
Land and construction in progress	22,573,946	710,181	23,284,127
Other capital assets, net	32,491,510	590,537	33,082,047
Total capital assets	<u>55,065,456</u>	<u>1,300,718</u>	<u>56,366,174</u>
Total assets	<u>82,281,806</u>	<u>1,467,309</u>	<u>83,749,115</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	3,764,362	3,942	3,768,304
Interest payable	882,449		882,449
Due to:			
Commonwealth Government	888,479		888,479
Governmental activities		110,000	110,000
Unearned revenues:			
Municipal license taxes	1,175,118		1,175,118
Federal grants	303,543		303,543
Noncurrent liabilities:			
Due within one year	2,443,573		2,443,573
Due in more than one year	47,373,414		47,373,414
Total liabilities	<u>56,830,938</u>	<u>113,942</u>	<u>56,944,880</u>
<b>Net Position</b>			
Net investment in capital assets	27,420,819	1,300,718	28,721,537
Restricted for:			
Capital projects	1,911,755		1,911,755
Debt service	5,184,680		5,184,680
Other purposes	3,702,758		3,702,758
Unrestricted	(12,769,144)	52,649	(12,716,495)
<b>Total net position</b>	<u>\$ 25,450,868</u>	<u>\$ 1,353,367</u>	<u>\$ 26,804,235</u>

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
<b>Primary government</b>							
<b>Governmental activities:</b>							
General government	\$ 9,911,960	\$ 666,827	\$ 159,962	\$ -	\$ (9,085,171)	\$ -	\$ (9,085,171)
Public safety	2,128,802	53,031			(2,075,771)		(2,075,771)
Health, public works and sanitation	3,150,826	1,271,566		2,329,490	450,230		450,230
Culture, recreation and education	1,113,471	3,565	82,208		(1,027,698)		(1,027,698)
Public housing and welfare	1,859,704		1,481,407		(378,297)		(378,297)
Urban and economic development	2,899,809				(2,899,809)		(2,899,809)
Interest on long-term debt	2,092,657				(2,092,657)		(2,092,657)
Total governmental activities	<u>23,157,229</u>	<u>1,994,989</u>	<u>1,723,577</u>	<u>2,329,490</u>	<u>(17,109,173)</u>	<u>-</u>	<u>(17,109,173)</u>
<b>Business-type activities:</b>							
Municipal Enterprises, Corp	61,985	105,171				43,186	43,186
Total business-type activities	<u>61,985</u>	<u>105,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,186</u>	<u>43,186</u>
Total primary government	<u>\$ 23,219,214</u>	<u>\$ 2,100,160</u>	<u>\$ 1,723,577</u>	<u>\$ 2,329,490</u>	<u>\$ (17,109,173)</u>	<u>\$ 43,186</u>	<u>\$ (17,065,987)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes					8,465,666		8,465,666
Municipal license taxes					1,685,300		1,685,300
Sales and use taxes					2,162,099		2,162,099
Construction excise taxes					194,674		194,674
Grants and contributions not restricted to specific programs					6,023,673		6,023,673
Interest					804,404		804,404
Miscellaneous					271,793		271,793
Transfers					(1,310,181)	1,310,181	-
Total general revenues					<u>18,297,428</u>	<u>1,310,181</u>	<u>19,607,609</u>
<b>Special items:</b>							
Property taxes from review of prior years CRIM settlements					1,500,000		1,500,000
Total special items					<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
<b>Change in net position</b>					2,688,255	1,353,367	4,041,622
<b>Net position - beginning</b>					22,762,613		22,762,613
<b>Net position - ending</b>					<u>\$ 25,450,868</u>	<u>\$ 1,353,367</u>	<u>\$ 26,804,235</u>

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 3,026,728	\$ -	\$ -	\$ 2,182,201	\$ 1,412,568	\$ 2,424,261	\$ 9,045,758
Cash with fiscal agent		5,850,879	10,962,250			251,840	17,064,969
Receivables, net:							
Municipal license taxes	732						732
Sales and use taxes	112,434	178,132					290,566
Others	5,336		464	900			6,700
Due from:							
Commonwealth Government	513,937	38,118				88,174	640,229
Federal Government						57,396	57,396
Other funds	618,392			200,000		1,415,710	2,234,102
<b>Total assets</b>	<b>\$ 4,277,559</b>	<b>\$ 6,067,129</b>	<b>\$ 10,962,714</b>	<b>\$ 2,383,101</b>	<b>\$ 1,412,568</b>	<b>\$ 4,237,381</b>	<b>\$ 29,340,452</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable and accrued liabilities	\$ 2,043,409	\$ -	\$ 1,661,607	\$ -	\$ -	\$ 59,346	\$ 3,764,362
Matured bonds and notes payable		1,720,000					1,720,000
Matured interest payable		882,449					882,449
Due to:							
Commonwealth Government	888,479						888,479
Other funds	1,615,710		106,237			402,155	2,124,102
Unearned revenues:							
Municipal license taxes	1,175,118						1,175,118
Federal Government						303,543	303,543
<b>Total liabilities:</b>	<b>5,722,716</b>	<b>2,602,449</b>	<b>1,767,844</b>	<b>-</b>	<b>-</b>	<b>765,044</b>	<b>10,858,053</b>
<b>Deferred inflows of resources</b>							
Unavailable revenues:							
Property taxes	401,250						401,250
Commonwealth Government	112,687						112,687
<b>Total deferred inflows of resources</b>	<b>513,937</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>513,937</b>
<b>Fund balances</b>							
Restricted		3,464,680	9,194,870	2,383,101	1,412,568	3,472,337	19,927,556
Unassigned (deficit)	(1,959,094)						(1,959,094)
<b>Total fund balances (deficit)</b>	<b>(1,959,094)</b>	<b>3,464,680</b>	<b>9,194,870</b>	<b>2,383,101</b>	<b>1,412,568</b>	<b>3,472,337</b>	<b>17,968,462</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,277,559</b>	<b>\$ 6,067,129</b>	<b>\$ 10,962,714</b>	<b>\$ 2,383,101</b>	<b>\$ 1,412,568</b>	<b>\$ 4,237,381</b>	<b>\$ 29,340,452</b>

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes:							
Property taxes	\$ 5,297,007	\$ 3,197,836	\$ -	\$ -	\$ -	\$ -	\$ 8,494,843
Municipal license taxes	1,685,300						1,685,300
Sales and use taxes	1,373,649	788,450					2,162,099
Construction excise taxes	194,674						194,674
Fees, fines and charges for services	1,387,860					7,129	1,394,989
Intergovernmental:							
Commonwealth Government	6,104,589					1,733,349	7,837,938
Federal Government						2,319,718	2,319,718
Interest	71,172		721,973		2	11,257	804,404
Miscellaneous	236,812					34,981	271,793
<b>Total revenues</b>	<b>16,351,063</b>	<b>3,986,286</b>	<b>721,973</b>	<b>-</b>	<b>2</b>	<b>4,106,434</b>	<b>25,165,758</b>
<b>Expenditures</b>							
Current:							
General government	9,586,367		71,182		780	194,141	9,852,470
Public safety	1,941,745					56,164	1,997,909
Health, public works and sanitation	1,127,919					513,942	1,641,861
Culture, recreation and education	1,025,457					19,551	1,045,008
Public housing and welfare	394,724					1,350,634	1,745,358
Urban and economic development	1,678,191					1,043,319	2,721,510
Debt service:							
Principal		1,720,000				317,000	2,037,000
Interest and other charges		1,735,857				356,800	2,092,657
Capital outlays	466,347		6,417,869			529,281	7,413,497
<b>Total expenditures</b>	<b>16,220,750</b>	<b>3,455,857</b>	<b>6,489,051</b>	<b>-</b>	<b>780</b>	<b>4,380,832</b>	<b>30,547,270</b>
Excess (deficiency) of revenues over (under) expenditures	130,313	530,429	(5,767,078)	-	(778)	(274,398)	(5,381,512)
<b>Other financing sources (uses)</b>							
Proceeds from issuance of long-term debt			1,785,000				1,785,000
Transfers in	1,233,741	52,824				1,092,924	2,379,489
Transfers out	(1,145,748)	(431,530)	(796,339)			(5,872)	(2,379,489)
<b>Total other financing sources (uses)</b>	<b>87,993</b>	<b>(378,706)</b>	<b>988,661</b>	<b>-</b>	<b>-</b>	<b>1,087,052</b>	<b>1,785,000</b>
<b>Special items</b>							
Property taxes from review of prior years							
CRIM settlements	1,500,000	-	-	-	-	-	1,500,000
<b>Total special items</b>	<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,500,000</b>
Net change in fund balances	1,718,306	151,723	(4,778,417)	-	(778)	812,654	(2,096,512)
Fund balance (deficit), beginning, as restated	(3,677,400)	3,312,957	13,973,287	2,383,101	1,413,346	2,659,683	20,064,974
Fund balance (deficit), ending	<u>\$ (1,959,094)</u>	<u>\$ 3,464,680</u>	<u>\$ 9,194,870</u>	<u>\$ 2,383,101</u>	<u>\$ 1,412,568</u>	<u>\$ 3,472,337</u>	<u>\$ 17,968,462</u>

**Total governmental fund balances** **\$ 17,968,462**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 55,065,456

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

Due from Commonwealth Government:

Property taxes - General Fund	\$ 401,250	
Christmas bonus reimbursement	112,687	513,937

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

General obligation bonds and notes	(29,760,000)	
Section 108 Loan Guarantee note payable	(7,013,000)	
Note payable to CRIM - Law No. 42	(1,042,343)	
Note payable to CRIM - Law No. 146	(203,997)	
Compensated absences	(1,933,993)	
Christmas bonus	(221,865)	
Claims and judgments	(668,508)	
Landfill obligation	(7,253,281)	(48,096,987)

**Net position of governmental activities** **\$ 25,450,868**

**Net change in fund balances - total governmental funds** **\$ (2,096,512)**

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

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

Expenditures for capital assets	\$ 7,413,497	
Less: current-year depreciation	<u>(2,646,448)</u>	4,767,049

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

Property taxes - General Fund (current year)	401,250	
Christmas bonus reimbursement (current year)	<u>112,687</u>	513,937

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

Property taxes - General Fund (prior year)	(430,427)	
Christmas bonus reimbursement (prior year)	<u>(193,603)</u>	(624,030)

Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the disposed asset

(714,991)

Proceeds from general obligation bonds are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position

(1,785,000)

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

Matured bonds and notes principal payments (net change)		50,000
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Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:

General obligation bonds and notes	1,670,000	
Other long-term liabilities	<u>1,144,202</u>	2,814,202

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

Christmas bonus	(221,865)	
Others	<u>(14,535)</u>	<u>(236,400)</u>

**Change in net position of governmental activities** **\$ 2,688,255**

	<b><u>Municipal Enterprises, Corp</u></b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 96,125
Accounts receivable, net:	
Service fees	69,818
Others	648
Total current assets	<u>166,591</u>
Noncurrent assets:	
Land	710,181
Other capital assets, net of accumulated depreciation	590,537
Total noncurrent assets	<u>1,300,718</u>
<b>Total assets</b>	<b><u>\$ 1,467,309</u></b>
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities:	
Security deposits	\$ 648
Accrued payroll liabilities	3,294
Due to governmental funds - General Fund	110,000
Total current liabilities	<u>113,942</u>
<b>Total liabilities</b>	<b><u>113,942</u></b>
Net position:	
Net investment in capital assets	1,300,718
Unrestricted	52,649
<b>Total net position</b>	<b><u>1,353,367</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 1,467,309</u></b>

	<b>Municipal Enterprises, Corp.</b>
<b>Operating revenues:</b>	
Services fees	\$ 100,000
Rent charges	3,668
Other income	1,503
Total operating revenues	<u>105,171</u>
<b>Operating expenses:</b>	
Salaries and benefits	4,529
Repairs and maintenance	34,483
Supplies and materials	3,259
Depreciation	19,714
Total operating expenses	<u>61,985</u>
<b>Operating income before transfers</b>	<u>43,186</u>
<b>Transfers</b>	
Transfers in	<u>1,310,181</u>
Total transfers	<u>1,310,181</u>
<b>Change in net position</b>	1,353,367
<b>Net position, at beginning of year</b>	<u>-</u>
<b>Net position, at end of year</b>	<u><u>\$ 1,353,367</u></u>

	<b><u>Municipal Enterprises, Corp.</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 35,353
Cash paid to employees for services	(1,235)
Cash paid to suppliers	(37,742)
	<hr/>
Net cash used by operating activities	(3,624)
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from due to governmental funds - General Fund	110,000
	<hr/>
Net cash provided for capital and related financing activities	110,000
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of capital assets	(10,251)
	<hr/>
Net cash used for investing activities	(10,251)
	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>96,125</b>
	<hr/>
<b>Cash and cash equivalents, beginning</b>	<b>-</b>
	<hr/>
<b>Cash and cash equivalents, ending</b>	<b>\$ 96,125</b>
	<hr/> <hr/>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 43,186
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	19,714
Changes in assets and liabilities:	
Accounts receivable, net - service fees	(69,818)
Accrued payroll liabilities	3,294
Net cash used by operating activities	\$ (3,624)
	<hr/> <hr/>
<b>Noncash investing activities:</b>	
Transfer of capital assets from governmental funds	\$ 1,310,181
	<hr/> <hr/>

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Toa Alta** (the Municipality) was founded in 1751. The Municipality's governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of fourteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration; public works and sanitation; public safety; health; welfare programs; community, urban and economic development; culture and recreation activities and educational services.

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

### A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Municipality of Toa Alta (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.

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

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

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

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

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

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

Based on the above criteria, there is one component unit which should be included as part of the financial statements:

1. **Municipal Enterprises, Corp.** – This municipal enterprise was created on January 28, 2013 with the Municipal Ordinance Number 23, 2012-2013 series, under the provisions of Law 149 of November 22, 2009 and Law 181 of August 11, 2011, which amend Law 81 of 1991, Law of Autonomous Municipalities. These laws give the municipalities the faculty to create for-profit enterprises, so they can purchase commercial franchises and operate businesses that stimulate the

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

economic development of the municipality. This, in turn, creates new employment opportunities and, at the same time, helps subsidize the traditional responsibilities the municipalities have toward their citizens. As of June 30, 2014, Municipal Enterprises, Corp. has three collaborating agreements with the Municipality of Toa Alta, by which they charge a service fee for the administration and operation of the municipal landfill and of the community centers owned by the Municipality, and for the rendering of repairs, maintenance and cleaning services on municipal facilities. For financial reporting purposes, this component unit meets the criteria for *blended* presentation and, therefore, is presented as a business-type activity in the Government-wide Financial Statements and as a proprietary fund in the Fund Financial Statements. The Land in the amount \$710,181 and net equipment and facilities in the amount of \$580,286 that are reported in the business-type column of the government wide statement of Net Position and in the Proprietary Fund's Statement of Position are the sole property of the Municipality of Toa Alta. The Municipality has transferred only the use of such facilities and equipment to the Municipal Enterprise as part of the collaborative agreement signed for the administration and operation of the landfill. Municipal Enterprises, Corp. is located on Road Num. 165 R, Km. 11.2, Barceló Street, at the corner of Luis Muñoz Rivera Street, Toa Alta, Puerto Rico, 00954.

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

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

#### **Management's Discussion and Analysis**

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

#### **Basic financial statements**

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

#### **Government-wide Financial Statements (GWFS)**

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

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

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 non-exchange transactions) are recognized as revenues in the year for which they are levied and municipal license taxes and sales and use taxes (derived tax revenues) when the underlying exchange has occurred and time requirements are met. Revenues on both operating and capital grants are recognized when all eligibility requirements (including time requirements) imposed by the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred.

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

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

#### **Governmental funds**

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:

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

**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.

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

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

**Las Acerolas Special Community Fund** – This fund is used to account for and report revenues sources received from the Special Communities Trust Fund, through the Puerto Rico Administration for the Development and Improvement of Housing, which are restricted for expenditure for the activities performed for the rehabilitation and construction of new housing in the special community of Las Acerolas.

**Section 108 Loan Guarantee Fund** – This fund is used to account for and report other financing sources received from the Section 108 Loan Guarantee Program, through the U.S. Department of Housing and Urban Development (HUD), which are restricted for expenditure for the activities performed for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery.

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

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

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

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.

### Proprietary funds

The financial information of the blended component unit Municipal Enterprises are accounted for in a *proprietary fund*. A *proprietary fund* is used to account for state or local government's activities that are similar to activities that may be performed by a commercial enterprise. The purpose of this type of fund is to provide a service or product to the public or other governmental entities at a reasonable cost. There are two types of proprietary funds:

- **Enterprise Fund** – it may be used to report any activity for which a fee is charged to external users for goods or services. Governmental accounting standards establish that an enterprise fund *must* be used to account for an activity if any of the following three criteria is satisfied:

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

1. The activity is financed with debt that is secured *solely* by a pledge of the net revenues from fees and charges of the activity.
  2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or capital debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
  3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).
- **Internal Service Fund** – it may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis. It should be used only when the reporting government itself is the predominant participant in the fund.

The accrual basis of accounting and the flow of economic resources measurement focus are used to prepare the financial statements of a proprietary fund. Revenues, expenses, gains, losses, assets and liabilities are recognized as of when an exchange takes place (when value is received for value). Thus, 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. All assets, deferred outflows of resources, liabilities and deferred inflows of resources are presented in the fund's statement of net position, including capital assets and long-term debt.

The financial statements of the Municipality Fund include the following:

- **Statement of Net Position** – assets and liabilities are classified as current and noncurrent and it can be presented in either one of the following formats: *net position format* (assets plus deferred outflows of resources less liabilities less deferred inflows of resources equals net position); or *balance sheet format* (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position).
- **Statement of Revenues, Expenses and Changes in Net Position** – it is the operating statement of a proprietary fund. Revenues are reported by major source; expenses are classified based on the nature of the expense incurred; and, finally, operating revenues and expenses are reported separately from nonoperating revenues and expenses and from capital contributions and transfers.
- **Statement of Cash Flows** – it summarizes the cash inflows and outflows of the entity into four categories: 1) cash flows from operations, 2) noncapital financing activities, 3) capital and related financing activities, and 4) investing activities. In addition, noncash transactions that have an effect on the entity's financial position are presented. Finally, a reconciliation is presented between operating income and the net cash flow from operating activities.

The Municipal Enterprise, Corp. is reported as an enterprise fund within the Municipality's FFS.

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

### Notes to financial statements

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

### Required Supplementary Information (RSI)

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

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

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

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

### F. Receivables and due from governmental entities

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

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

**G. Inter-fund receivables and payables**

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

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

**H. Inventories**

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

**I. Capital assets**

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items). The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than \$500 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Description</u>	<u>Useful Life</u>
Land improvements	20 years
Buildings, structures and site improvements	30 to 50 years
Infrastructure	20 to 50 years
Works of art	10 years
Vehicles	10 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

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

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

### J. Deferred outflows/inflows of resources

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

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

### K. Long-term obligations

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

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

**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.

**M. Claims and judgments**

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

**N. Net position**

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

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

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

### O. Net position flow assumption

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

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

### P. Fund balances

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

- Nonspendable:** Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted:** Amounts constrained by external parties (creditors, grantors, contributors, or laws and regulations of other governments), imposed by law through constitutional provisions or by enabling legislation. Enabling legislation authorizes the Municipality to assess, levy, charge or otherwise mandate payment or resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceability means that the Municipality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.
- Committed:** Amounts that can be used only for the specific purposes pursuant to constraints imposed through formal action (ordinance or resolution) by consent of the government's highest level of decision-making authority, which in the case of the Municipality is the Mayor and the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the Mayor and the Municipal Legislature removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

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

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

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

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2014.

### Q. Fund balance flow assumptions

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

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

### R. Accounting for pension costs

The Municipality adopted the provisions of GASBS No. 50, *Pension Disclosure*, which amended GASBS No.27, *Accounting for Pensions by State and Local Government Employers*, by requiring disclosure of how the contractually required contribution rate is determined by governments participating in multi-employer cost-sharing pension plans.

The Municipality accounts for pension costs from the standpoint of a participant in a multi-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

For the purpose of applying the requirements of GASBS No. 27, 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.

### S. Inter-fund and intra-entity transactions

The Municipality has the following types of transactions among funds:

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

### T. Risk financing

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

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

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

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability or death because of work or employment-related accidents or due to a non-occupational disability. The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers' insurance premiums are paid based on the number of workweeks worked by each employee covered by law.

### U. Use of estimates

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

### V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2014 (fiscal year ended June 30, 2015).
2. **GASB Statement No. 69 "Government Combinations and Disposals of Government Operations."** The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis (fiscal year ended June 30, 2015).
3. **GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date."** The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 (fiscal year ended June 30, 2015).

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

### W. Financial statement reclassifications

Certain reclassifications have been made to the information presented for the fiscal year ended June 30, 2013 in order to make the data comparable to the current year classifications.

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

### X. Subsequent events

Subsequent events have been evaluated through August 25, 2015, 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, 2014.

## 2. CASH AND CASH EQUIVALENTS

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

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

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

Therefore, the Municipality's management has concluded that the risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2014.

**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 interest-bearing accounts generating interests at prevailing market rates. At June 30, 2014, 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, 2014, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

**Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollateralized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2014.

Therefore, the Municipality's management has concluded that, at June 30, 2014, 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, 2014.

**Deposits** – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to \$7,498,120 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to \$11,134,769 as of June 30, 2014. 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.

**3. RECEIVABLES**

**A. Municipal license taxes**

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

During the fiscal year ended June 30, 2014, the tax rates were as follows:

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

Municipal license taxes receivable as of June 30, 2014 follows:

<u>Description</u>	<u>Amount</u>
Total municipal license tax receivable	\$ 732
Less: allowance for uncollectible accounts	-
	<u>\$ 732</u>

### 3. RECEIVABLES (CONTINUED)

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of \$1,175,188 is recorded as unearned revenues.

#### B. Sales and use taxes

On July 4, 2006, the Commonwealth Legislature approved Act No. 117 ("Act 117"), which amends the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a sale and use tax of 5.5% to be imposed by the Commonwealth Government. Act 117 also authorized 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 amended 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

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. 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.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 20th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$2,241,744 in the general fund corresponding to the 1% imposition and \$788,450 in the debt service fund corresponding to the Municipal Redemption Fund.

### 3. RECEIVABLES (CONTINUED)

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 20th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable of \$112,434 represents the tax collected on June by individuals, organizations and entities but reported and paid to the Municipality on or before July 20, net of uncollectible accounts; and \$178,132 represents amounts of the Municipal Redemption Fund collected on June from individuals, organizations and entities but paid by the PRDT subsequent to June 30, which are reported as a receivable in the debt service fund.

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 thus increasing the Commonwealth 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. As a result of this legislation, the municipalities of Puerto Rico may improve their credit capacity along with maintaining sufficient resources for operations.

#### **Act No. 18 of January 24, 2014**

The purpose of this Act is to create a special fund called Municipal Administration Fund (FAM) under the custody of the Government Development Bank of Puerto Rico (GDB) that 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 includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act was effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds, during a transitory period from February 1, 2014 to June 30, 2014, the Commonwealth deposited \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .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.

### 3. RECEIVABLES (CONTINUED)

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

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

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

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

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

#### **Act No. 19 of January 24, 2014**

The purpose of this Act is to create 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 (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act was effective on February 1, 2014.

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

**3. RECEIVABLES (CONTINUED)**

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

**C. Other receivables**

The \$5,336 reported in the general fund as other accounts receivable as of June 30, 2014 is composed of the following:

<u>Description</u>	<u>Amount</u>
Property insurance reimbursement	\$ 2,319
Fees for the disposition of junk cars	3,017
<b>Total</b>	<b><u>\$ 5,336</u></b>

The \$1,364 reported in the bond issuances for capital projects fund and "Las Acerolas" special community fund as other accounts receivable as June 30, 2014 corresponded to accrued interest revenue.

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

**A. Amounts due from governmental entities as of June 30, 2014 are as follows:**

	<u>Commonwealth Government</u>	<u>Federal Government</u>
<b><u>Major fund – General fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – Property taxes	\$ 401,250	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement	112,687	
<b><u>Major fund – Debt service fund:</u></b>		
Municipal Revenue Collection Center (CRIM) – Property taxes	38,118	
<b><u>Other Governmental Funds:</u></b>		
P.R. Department of Labor and Human Resources – Law No. 52 & 82	82,436	
P.R. Department of Education – Child and Adult Care Food Program		12,965
P.R. Office of Ombudsman Administration (OAP) - Special Program for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers		39,411
U.S. Department of Housing and Urban Development – Community Development Block Grants/Entitlement Grants		5,020
Others	5,738	
	<b><u>\$ 640,229</u></b>	<b><u>\$ 57,396</u></b>

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

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

B. Amounts due to governmental entities as of June 30, 2014 are as follows:

Description	Commonwealth Government
<b>Major fund – General fund:</b>	
P.R. Employees Retirement System (ERS)	\$ 103,085
P.R. Department of Treasury	113,832
P.R. Aqueduct and Sewer Authority (PRASA)	573,000
P.R. General Services Administration	18,270
Association of Employees of the Commonwealth of Puerto Rico	50,692
P.R. Industrial Development Company (PRIDCO)	28,000
P.R. Department of Education	1,600
	<b>\$ 888,479</b>

5. INTERFUND TRANSACTIONS

Interfund receivables and payables at June 30, 2014, and interfund transfers during the fiscal year ended at June 30, 2014, are summarized as follows:

a. Due from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
	Bond Issuances for Capital Projects Fund	Reimbursable expenditures	\$ 106,237
General Fund	Other Governmental Funds	Short-term borrowings	402,155
General Fund	Proprietary Fund	Short-term borrowings Investment - Municipal Enterprise	110,000
Las Acerolas Special Community Fund	General Fund	Short-term borrowings	200,000
Other Governmental Funds	General Fund	Short-term borrowings	1,415,710
Total			<b>\$ 2,234,102</b>

b. Transfer in/out to other fund

Transfer out	Transfer in	Purpose	Amount
General Fund	Other Governmental Funds	Commitments of funds for special purposes	\$ 1,092,924
General Fund	Debt Service Fund	Transfer of matured bond interest.	52,824
Debt Service Fund	General Fund	Transfer of excess available balance in sinking fund	431,530
Bond Issuance for Capital Projects Fund	General Fund	Transfer interest and amounts for commitments for special purpose	796,339
Other Governmental Fund	General Fund	Transfer for special funds outlays	5,872
Total			<b>\$ 2,379,489</b>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2014 are detailed as follows:

	<u>General Fund</u>	<u>Bond Issuances for Capital Projects Fund</u>	<u>Other Governmental funds</u>	<u>Total</u>
Accounts payable - vendors	\$ 1,847,065	\$ 1,661,607	\$ 59,346	\$ 3,568,018
Accrued liabilities - payroll withholdings	196,344	-	-	196,344
<b>Total</b>	<b>\$ 2,043,409</b>	<b>\$ 1,661,607-</b>	<b>\$ 59,346</b>	<b>\$ 3,764,362</b>

**7. UNEARNED REVENUES**

The amounts reported as unearned revenues as of June 30, 2014 are detailed as follows:

	<u>Amount</u>
<b><u>Major fund – General fund:</u></b>	
Municipal license taxes collected in the fiscal year 2013-2014 that correspond to the 2014-2015 fiscal year budget	<b>\$ 1,175,188</b>
<b><u>Other Governmental Funds:</u></b>	
Federal grants received for which qualifying expenditures have not been incurred:	
Department of Emergency Center -911	\$ 85,864
Special Program for the Aging-Title III, Part B Supportive Services	92,325
Child and Adult Care Food Program	15,163
Housing Opportunities for Persons with AIDS (HOPWA)	5,362
Others	104,829
	<b>\$ 303,543</b>

**8. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS**

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

	<u>Property Taxes</u>	<u>Commonwealth Government</u>
<b><u>Major fund - General fund:</u></b>		
Municipal Revenues Collection Center (CRIM)	\$ 401,250	\$ -
P.R. Department of Treasury – Christmas bonus reimbursement		112,687
	<b>\$ 401,250</b>	<b>\$ 112,687</b>

9. FUND BALANCE CLASSIFICATIONS

The governmental fund balance classifications and amounts at June 30, 2014 are shown in the following table:

	General Fund	Debt Service Fund	Bond Issuances for Capital Projects Fund	Las Acerolas Special Community Fund	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total Governmental Funds
Restricted:							
Health, public works and sanitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,172	\$ 161,172
Public safety						50,575	50,575
Culture, recreation and education						116,597	116,597
Public housing and welfare						152,810	152,810
Urban and economic development				2,383,101		533,850	2,916,957
Debt service		3,464,680					3,464,680
Capital outlays			9,194,870		1,412,568	2,152,680	12,760,118
General government and other purposes						304,653	304,653
Unassigned	(1,959,094)						(1,959,094)
Total Fund Balance	<u>\$ (1,959,094)</u>	<u>\$ 3,464,680</u>	<u>\$ 9,194,870</u>	<u>\$ 2,383,101</u>	<u>\$ 1,412,568</u>	<u>\$ 3,472,337</u>	<u>\$ 17,968,462</u>

**10. CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended June 30, 2014 is as follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2014</b>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 14,100,390	\$ -	\$ (710,181)	\$ 13,390,209
Construction in progress	4,948,258	4,462,309	(226,830)	9,183,737
<b>Total capital assets not being depreciated</b>	<b>19,048,648</b>	<b>4,462,309</b>	<b>(937,011)</b>	<b>22,573,946</b>
Capital assets, being depreciated:				
Buildings, structures and site improvements	18,787,664			18,787,664
Infrastructure	20,773,374	1,624,581		22,397,955
Vehicles	2,281,679	1,338,981		3,620,660
Machinery, equipment, furniture and fixtures	10,894,562	214,456	(4,810)	11,104,208
<b>Total capital assets being depreciated</b>	<b>52,737,279</b>	<b>3,178,018</b>	<b>(4,810)</b>	<b>55,910,487</b>
<b>Less accumulated depreciation for:</b>				
Buildings, structures and site improvements	(5,010,110)	(916,250)		(5,926,360)
Infrastructure	(5,190,628)	(1,401,400)		(6,592,028)
Vehicles	(56,690)	(243,465)		(300,155)
Machinery, equipment, furniture and fixtures	(10,515,101)	(85,333)		(10,600,434)
<b>Total accumulated depreciation</b>	<b>(20,772,529)</b>	<b>(2,646,448)</b>		<b>(23,418,977)</b>
<b>Total capital assets being depreciated, net</b>	<b>31,964,750</b>	<b>531,570</b>	<b>(4,810)</b>	<b>32,491,510</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 51,013,398</b>	<b>\$ 4,993,879</b>	<b>\$ (941,821)</b>	<b>\$ 55,065,456</b>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ -	\$ 710,181	\$ -	\$ 710,181
<b>Total capital assets not being depreciated</b>		<b>710,181</b>		<b>710,181</b>
Capital assets, being depreciated:				
Buildings, structures and site improvements		1,900		1,900
Vehicles		429,000		429,000
Machinery, equipment, furniture and fixtures		179,351		179,351
<b>Total capital assets being depreciated</b>		<b>610,251</b>		<b>610,251</b>
<b>Less accumulated depreciation for:</b>				
Buildings, structures and site improvements		(24)		(24)
Vehicles		(10,725)		(10,725)
Machinery, equipment, furniture and fixtures		(8,965)		(8,965)
<b>Total accumulated depreciation</b>		<b>(19,714)</b>		<b>(19,714)</b>
<b>Total capital assets being depreciated, net</b>		<b>590,537</b>		<b>590,537</b>
<b>Business-type activities capital assets, net</b>	<b>\$ -</b>	<b>\$ 1,300,718</b>	<b>\$ -</b>	<b>\$ 1,300,718</b>

**10. CAPITAL ASSETS (CONTINUED)**

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

<b>Governmental activities:</b>	<b><u>Amount</u></b>
General government	\$ 645,482
Public safety	130,893
Health, public works and sanitation	1,508,965
Culture, recreation and education	68,463
Public housing and welfare	114,346
Urban and economic development	178,299
<b>Total depreciation expense - governmental activities</b>	<b><u>\$ 2,646,448</u></b>

The Land in the amount \$710,181 and net equipment and facilities in the amount of \$580,286 that are reported in the business-type column of the government wide statement of Net Position and in the Proprietary Fund's Statement of Position are the sole property of the Municipality of Toa Alta. The Municipality has transferred only the use of such facilities and equipment to the Municipal Enterprise as part of the collaborative agreement signed for the administration and operation of the landfill.

**11. LONG-TERM LIABILITIES**

**A. Summary of long-term debt activity**

Long-term liability activity for the year ended June 30, 2014, was as follows:

<b>Description</b>	<b>Beginning Balance, as restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General and special obligation bonds payable	\$ 26,465,000	\$ -	\$ (930,000)	\$ 25,535,000	\$ 840,000
General and special obligation notes payable	4,900,000	1,785,000	(740,000)	5,945,000	880,000
Section 108 Loan Guarantee notes payable	7,330,000		(317,000)	7,013,000	334,000
Notes payable to CRIM – financing of property tax advances (Law No. 42)	1,071,863		(29,520)	1,042,343	11,333
Notes payable to CRIM – financing of delinquent accounts (Law No. 146)	215,330		(11,333)	203,997	31,375
Compensated absences	2,133,850		(199,857)	1,933,993	50,000
Christmas bonus	500,000	221,865	(500,000)	221,865	221,865
Claims and judgments	755,000		(86,492)	668,508	75,000
Landfill obligation	7,253,281			7,253,281	
<b>Total</b>	<b><u>\$ 50,624,324</u></b>	<b><u>\$ 2,006,865</u></b>	<b><u>\$ (2,814,202)</u></b>	<b><u>\$49,816,987</u></b>	<b><u>\$2,443,573</u></b>

## 11. LONG-TERM LIABILITIES (CONTINUED)

### B. Legal debt margin

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

### C. General and special obligation bonds and notes

The Municipality's outstanding general and special obligation bonds and notes at June 30, 2014 amount to \$25,535,000 and \$5,945,000, respectively. All these bonds and notes are serviced by the Governmental Development Bank of Puerto Rico (GDB) maturing at various dates. As required by law, the Commonwealth Government is obligated to collect property taxes for payment of principal and interest on bonds and notes. The Municipality levies an annual additional special ad valorem tax of three and a half percent (3.50%) of the assessed value of personal and real property. In addition, .2% of the .5% municipal sales and use tax collected by the P.R. Department of Treasury is deposited in a "Municipal Redemption Fund" at the GDB to finance loans to Municipalities subject to restrictions imposed by law. The proceeds of the additional special ad valorem tax and of 0.2% sales and use tax are deposited in sinking funds established at GDB to redeem the bonds and notes payable of the Municipality in minimum annual or semiannual principal and interest payments, whereby sufficient funds are set aside in order to cover the projected debt service requirements, before any new bonds are issued.

Principal and interest payments on long-term debt are made through CAE sinking fund except general and special obligation bonds and notes \$305,000, \$3,960,000, \$1,910,000 and \$625,000, which are made through the "Municipal Redemption Fund (IVU)". During the year, the Municipality issued general and special obligation notes in the amounts of \$1,160,000 and \$625,000, respectively.

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

A detail of the general and special obligation bonds and notes outstanding as of June 30, 2014 follows:

11. LONG-TERM LIABILITIES (CONTINUED)

Bonds Payable

Description	Outstanding Balance
1994 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$330,000 due in installments of \$5,000 to \$30,000 through July 1, 2019, with interest rates ranging from 6.11% to 8.21% (7.71% at June 30, 2014)	\$ 145,000
1995 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$485,000 due in installments of \$5,000 to \$45,000 through July 1, 2020, with interest rates ranging from 4.70% to 6.63% (6.58% at June 30, 2014)	240,000
1995 Public improvements obligation bond for construction and purchase of capital assets with an original amount of \$205,000 due in installments of \$5,000 to \$20,000 through July 1, 2020, with interest rates ranging from 4.70% to 6.63% (6.58% at June 30, 2014)	100,000
1997 General obligation bond for construction and purchase of capital assets with an original amount of \$1,230,000 due in installments of \$15,000 to \$105,000 through July 1, 2021, with interest rates ranging from 4.87% to 6.75% (6.19% at June 30, 2014)	660,000
1998 General obligation bond for construction and purchase of capital assets with an original amount of \$625,000 due in installments of \$10,000 to \$55,000 through July 1, 2022, with interest ranging from 4.87% to 6.56% (6.19% at June 30, 2014)	365,000
2000 General obligation bond for construction and purchase of capital assets with an original amount of \$505,000 due in installments of \$5,000 to \$45,000 through July 1, 2025, with interest rates ranging from 1.23% to 7.81% (1.23% at June 30, 2014)	360,000
2001 General obligation bond for construction and purchase of capital assets with an original amount of \$2,105,000 due in installments of \$75,000 to \$230,000 through July 1, 2016, with interest rates ranging from 2.70% to 5.00% (4.73% at June 30, 2014)	635,000
2006 General obligation bond for construction and purchase of capital assets with an original amount of \$2,275,000 due in installments of \$35,000 to \$185,000 through July 1, 2031, with interest rates ranging from 1.48% to 7.00% (1.48% at June 30, 2014)	1,965,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$305,000 due in installments of \$5,000 to \$30,000 through July 1, 2035, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	290,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$3,960,000 due in installments of \$60,000 to \$335,000 through July 1, 2035, with interest rates ranging from 6.00% to 6.50% (6.00% at June 30, 2014)	3,770,000
2010 Special obligation bond for construction and purchase of capital assets with an original amount of \$1,910,000 due in installments of \$25,000 to \$160,000 through July 1, 2035, with interest rates ranging from 6.00% to 6.50% (6.00% at June 30, 2014)	1,825,000
2010 General obligation bond for construction and purchase of capital assets with an original amount of \$5,230,000 due in installments of \$160,000 to \$520,000 through July 1, 2027, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	4,710,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2012 General obligation bond for construction and purchase of capital assets with an original amount of \$8,210,000 due in installments of \$50,000 to \$1,470,000 through July 1, 2031, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2014)	8,160,000
2012 General obligation bond for construction and purchase of capital assets with an original amount of \$2,370,000 due in installments of \$60,000 to \$465,000 through July 1, 2026, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2014)	2,310,000
<b>Total</b>	<b>\$ 25,535,000</b>

The annual debt service requirements to maturity for bonds payable as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	\$ 840,000	\$1,503,124
2016	895,000	1,631,043
2017	980,000	1,571,814
2018	800,000	1,513,674
2019	825,000	1,458,578
2020-2024	5,230,000	6,345,337
2025-2029	8,255,000	3,937,263
2030-2034	6,705,000	1,157,188
2035-2039	1,005,000	67,363
<b>Total</b>	<b>\$ 25,535,000</b>	<b>\$ 19,185,384</b>

Notes Payable

Description	Outstanding Balance
2008 General obligation note for construction and purchase of capital assets with an original amount of \$1,335,000 due in installments of \$145,000 to \$235,000 through July 1, 2014, with interest rates ranging from 1.48% to 5.40% (1.48% at June 30, 2014)	\$ 235,000
2008 General obligation note for construction and purchase of capital assets with an original amount of \$770,000 due in installments of \$90,000 to \$135,000 through July 1, 2016, with interest rates ranging from 4.75% to 6.00% (4.75% at June 30, 2014)	375,000
2009 General obligation note for construction and purchase of capital assets with an original amount of \$805,000 due in installments of \$90,000 to \$145,000 through July 1, 2016, with interest rates ranging from 4.75% to 6.00% (4.75% at June 30, 2014)	395,000

11. LONG-TERM LIABILITIES (CONTINUED)

Description	Outstanding Balance
2012 General obligation note for construction and purchase of capital assets with an original amount of \$2,515,000 due in installments of \$55,000 to \$890,000 through July 1, 2020, with interest rates ranging from 6.00% to 6.75% (6.00% at June 30, 2014)	2,460,000
2012 General obligation note for construction and purchase of capital assets with an original amount of \$840,000 due in installments of \$145,000 to \$195,000 through July 1, 2017, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	695,000
2013 General obligation note for construction and purchase of capital assets with an original amount of \$1,160,000 due in installments of \$130,000 to \$205,000 through July 1, 2020, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	1,160,000
2013 Special obligation note for construction and purchase of capital assets with an original amount of \$625,000 due in installments of \$70,000 to \$115,000 through July 1, 2020, with interest rates ranging from 6.00% to 7.50% (6.00% at June 30, 2014)	625,000
<b>Total</b>	<b>\$ 5,945,000</b>

The annual debt service requirements to maturity for notes payable as of June 30, 2014 are as follows:

June 30,	Principal	Interest
2015	\$ 880,000	\$ 345,139
2016	690,000	330,056
2017	740,000	280,819
2018	750,000	228,338
2019	770,000	174,338
2020-2024	2,115,000	157,744
<b>Total</b>	<b>\$ 5,945,000</b>	<b>\$ 1,516,434</b>

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11. LONG-TERM LIABILITIES (CONTINUED)

D. Other long-term liabilities

**Section 108 Loan Guarantee notes payable** – The Municipality entered into a financing agreement with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. This agreement was issued on June 12, 2008 in the amount of \$7,886,000 for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery. This note is payable in annual installments of \$271,000 to \$300,000 through August 1, 2028, bearing interest rates ranging from 3.44% to 5.42% (4.14% at June 30, 2014). The payment of principal and interest of this note is made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program. Debt service requirements in future years are as follows:

Outstanding Amount
\$ 7,013,000

June 30,	Principal	Interest
2015	\$ 334,000	343,546
2016	352,000	329,011
2017	371,000	313,080
2018	390,000	295,878
2019	411,000	277,492
2020-2024	2,414,000	1,051,918
2025-2029	2,741,000	342,644
<b>Total</b>	<b>\$ 7,013,000</b>	<b>\$ 2,953,569</b>

**Note payable to CRIM - Financing of property tax advances (Law No. 42)** – Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank of Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owed to CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico’s general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law no. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. On July 1, 2002 the Municipality entered into the financing agreement with the CRIM for a total amount of \$1,293,911, bearing interest at 6.1875% and due on July 1, 2032. Debt service requirements in future years are as follows:

Outstanding Amount
\$ 1,042,343

11. LONG-TERM LIABILITIES (CONTINUED)

June 30,	Principal	Interest
2015	\$ 31,375	\$ 64,017
2016	33,346	62,046
2017	35,441	59,950
2018	37,668	57,724
2019	40,035	55,357
2020-2024	241,221	235,738
2025-2029	327,144	149,815
2030-2032	296,113	37,759
<b>Total</b>	<b>\$ 1,042,343</b>	<b>\$ 722,406</b>

Outstanding  
Amount

**Note payable to CRIM - Financing of delinquent accounts (Law No. 146) –**

On July 7, 2007, the Municipality entered into a restructured financing agreement with the CRIM in the amount of \$283,362, to finance the remaining balance of delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The original agreement signed in July 2002 was in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR). As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years, any collection from those delinquent accounts was credited to the loan principal. After the five year period, the loan outstanding balance was restructured for a twenty-five years period at an interest rate of 2.50% ending on March 31, 2032. Debt service requirements in future years are as follows:

\$ 203,997

June 30,	Principal	Interest
2015	\$ 11,333	\$ 5,108
2016	11,333	4,824
2017	11,333	4,541
2018	11,333	4,257
2019	11,333	3,973
2020-2024	56,666	15,608
2025-2029	56,666	8,513
2030-2032	34,000	1,703
<b>Total</b>	<b>\$ 203,997</b>	<b>\$ 48,527</b>

11. LONG-TERM LIABILITIES (CONTINUED)

	<u>Outstanding Amount</u>
<b>Compensated absences</b> - includes accrued vacations, sick leave benefits and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds.	<u>\$ 1,933,993</u>
<b>Christmas bonus</b> - represents the accrued portion corresponding to the fiscal year 2014 of the Christmas bonus to be paid in December 2014.	<u>\$ 221,865</u>
<b>Claims and judgments</b> - represents the estimated loss of legal cases to be paid subsequent to June 30, 2014. The awarded amount, if any, will be paid with unrestricted funds.	<u>\$ 668,508</u>
<b>Landfill Obligation</b> - State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. The Municipality has recognized as other long-term debt the current estimate for landfill closure and post-closure costs as of June 30, 2014. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. No sinking fund has been established for the payment of these costs.	<u>\$ 7,253,281</u>

12. LANDFILL CLOSURE AND POST CLOSURE CARE COST OBLIGATION

The Municipality owns a municipal solid waste landfill which requires the application of the provisions set forth in Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs", issued by the Governmental Accounting Standards Board (GASB No. 18) and the regulations set forth by the U.S. Environmental Protection Agency (EPA) in its "Solid Waste Disposal Facility Criteria", issued on October 9, 1991. State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stops accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality is required to perform 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. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Municipality reports a portion of these closure and post-closure care costs as an operating expense in each period until the landfill ceases its operations based on the updated estimates provided by the study.

However, the Municipality of Toa Alta has not performed such study and, as of June 30, 2014, has reported a liability for closure and post closure care costs in the amount of \$7,253,281 based on the percentage used of the estimated capacity of the landfill in previous years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Municipality expects to finance this obligation with an assignment of the central government and federal funds. In addition, the Solid Waste Disposal Administration of Puerto Rico approved a grant for the Municipality in the amount of \$ 1,000,000 to be used for the landfill closing costs.

### 13. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1<sup>st</sup> and January 1<sup>st</sup>. Total tax rates in force as of June 30, 2014 are 8.53% for personal property and 11.53% for real property. The distribution of these rates follows:

<u>Description</u>	<u>Personal Property</u>	<u>Real Property</u>
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.50%	4.50%
Total tax rate:	<u>8.53%</u>	<u>11.53%</u>
 Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	 <u>(.20%)</u>	 <u>(.20%)</u>
 <b>Total percent to be paid by taxpayers:</b>	 <b><u>8.33%</u></b>	 <b><u>11.33%</u></b>

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

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

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has a net receivable of \$401,250 resulting from the final settlement of fiscal year 2014 recorded as deferred inflows of resources in the governmental funds statements since is not available as required by current standards.

**13. PROPERTY TAXES (CONTINUED)**

On December 9, 2013, Law No. 145 “Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes” was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2013-14, the Municipality received revenues from this property tax amnesty in the amount of \$663,517.

On March 1, 2014, the CRIM transferred the Municipality the amount of \$1,500,000 in additional property taxes that resulted from the review of the property tax annual settlements issued by the agency for the fiscal years 2008-2009 through 2012-2013. This review was the result of a lawsuit filed by the Municipality of Juana Díaz that required an administrative review of the amounts calculated and reported on the property taxes settlements issued by the CRIM for the said fiscal years. The \$1,500,000 was reported as an special item in the Municipality’s financial statements due to the infrequent nature of this transaction.

**14. INTERGOVERNMENTAL REVENUES - GENERAL FUND**

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

	<u>Amount</u>
Amount of municipal equalization fund sent by CRIM	\$ 4,010,985
Compensation in lieu of tax from the Puerto Rico Electric Power Authority (PREPA)	2,093,604
	<u><u>\$ 6,104,589</u></u>

**15. PENSION PLAN**

**A. Act No. 447 and System 2000 (until June 30, 2013)**

As of June 30, 2014 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit 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 System operates under *Act 447, approved on May 15, 1951* effective on January 1, 1952 and *Act 1 of February 16, 1990* for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, 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. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

**15. PENSION PLAN (CONTINUED)**

Act No. 305 of September 24, 1999 amended Act No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary.

In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 11.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

**B. Act No. 3 of 2013 (beginning July 1, 2013)**

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").

## 15. PENSION PLAN (CONTINUED)

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather 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 New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.
- After 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. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
  - ✓ Act 447 regular employees: age 58 to 61,
  - ✓ Act 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - ✓ Act 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 15), the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated 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%).
- Survivor benefits were modified.

**15. PENSION PLAN (CONTINUED)**

The Municipality's actual contribution for the current and the previous two fiscal years, which is equal to the required contribution, follows:

Fiscal year ended:	Law No. 447	System 2000	Law No. 3
2014	\$ -	\$ -	\$ 442,804
2013	\$ 191,083	\$ 256,330	\$ -

**C. Act 32 of 2013 (beginning July 1, 2013)**

On June 25, 2013, Act 32 was approved in order to amend Act 447 of 1957 by creating a new Article 5-117 *Additional Uniform Contribution (AUC)*, with 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. Act 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000)
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUD is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year. For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC subsidy received by the Municipality from OMB was \$110,693, which covered 80% of the total contribution required of \$138,367.

## 15. PENSION PLAN (CONTINUED)

In addition to the pension benefits described in note 14, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees)
- Eliminated all Special Law benefits to future retirees.

Act 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

For the fiscal year 2013-2014, \$20 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of net incremental cost of the \$2,000 contribution per retiree for any municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on the same two parameters evaluated for the Additional Uniform Contribution (AUC) subsidy (financial indicators and population). For the fiscal year ended June 30, 2014, the subsidy received from OMB was \$213,933, which partially covered the costs related to these post-employment benefits of \$257,744. These benefits are recorded as expenditures in the general fund.

## 16. COMMITMENTS

### A. Operating leases

The Municipality leases office space and office equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same terms. Rental expenses amounted to \$179,100. Management believes that the summary of the future minimum rental commitments under non-cancelable equipment leases with terms exceeding one year is not significant.

### B. Construction

The Municipality has commitments at June 30, 2014 of \$9 million for construction, improvements or renovation of certain municipal facilities.

**17. CONTINGENCIES**

**A. Federal and State grants**

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

**B. Litigations**

The Municipality is, at present, a defendant in a number of legal matters that arise in the ordinary course of the Municipality's activities. There are cases whereby the Municipality is a defendant or codefendant that will be covered by insurance, certain cases whereby the legal counsel has not determined an outcome and other cases that will not be covered by insurance. As a result of various legal cases as of June 30, 2014 and not to be covered by insurance, the Municipality accrued an estimated loss of \$668,508 in the government-wide statements. However, it is the opinion of the Municipality and the legal counsels that based on their experience, such actions and the potential liabilities will not impair the Municipality financial position.

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

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

<u>Description</u>	<u>Fund Balance</u>	
	<u>General</u>	<u>Other Governmental Funds</u>
<b>Fund balance (deficit), at beginning of year, as previously reported</b>	<b>\$ (3,983,798)</b>	<b>\$ 2,342,683</b>
Overstatement of accrued employee benefits	306,398	
Overstatement of matured bonds payable		317,000
<b>Fund balance / net position, at end of year, as restated</b>	<b>\$ (3,677,400)</b>	<b>\$ 2,659,683</b>

## 19. SUBSEQUENT EVENTS

### A. Implementation of Acts No. 18 and 19 of 2014

The dispositions established by Acts 18 and 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014 (see note 3). The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Toa Alta), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM 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 and FRM with the monthly advances made to each municipality. If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act 19, 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, 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 FRM 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.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincon) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

## 19. SUBSEQUENT EVENTS (CONTINUED)

On the other hand, the Governing Board of COFIM has not established an implementation date for the remaining 62 municipalities. However, for those municipalities that voluntarily decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date was January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base.

### B. Act 72 of May 29, 2015

On May 29, 2015, the legislature of the Commonwealth of Puerto Rico Approved Act 72 to amend the PR Internal Revenues Tax Code, to increase the rate of state sales and use tax collected on the purchase of goods and services and to create the new tax revenue source value-added tax ("IVA in Spanish). This Act, among other changes, increases the state sales and use tax rate from 6.00% to 10.5% and the types of purchases and services subject to the said tax. However, there are no changes to the 1% sales and use tax collected by the Municipalities, nor in the types of purchases and services that are subject to the said tax.

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property tax	\$ 4,535,835	\$ 4,535,835	\$ 4,428,912	\$ (106,923)
Municipal license tax	1,500,000	1,500,000	1,685,300	185,300
Municipal sales and use tax	1,500,000	1,500,000	1,373,649	(126,351)
Construction excise tax	600,000	600,000	194,674	(405,326)
Intergovernmental	5,735,976	5,735,976	6,104,589	368,613
Fees, fines and charges for services	500,000	500,000	785,095	285,095
Interest	725,000	725,000	793,145	68,145
Miscellaneous	1,775,377	1,775,377	702,103	(1,073,274)
<b>Total revenues</b>	<b>\$ 16,872,188</b>	<b>\$ 16,872,188</b>	<b>\$16,067,467</b>	<b>(804,721)</b>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
General government	\$ 9,255,486	\$ 9,255,486	\$ 9,586,367	\$ (330,881)
Health, public works and sanitation	1,837,862	1,837,862	1,127,919	709,943
Public safety	1,509,263	1,509,263	1,941,745	(432,482)
Culture, recreation and education	1,296,424	1,296,424	1,025,457	270,967
Public housing and welfare	1,836,216	1,836,216	861,071	975,145
Urban and economic development	1,136,937	1,136,937	1,678,191	(541,254)
<b>Total expenditures, encumbrances and other financing uses</b>	<b>\$ 16,872,188</b>	<b>\$ 16,872,188</b>	<b>\$16,220,750</b>	<b>\$ 651,438</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (153,283)</b>	<b>\$ (153,283)</b>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 16,872,188
Differences-budget to GAAP:				
Non-budgeted revenues and other financing resources expenditures				2,212,616
<b>Total revenues, special items and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 19,084,804</b>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 16,220,750
Differences-budget to GAAP:				
Non-budgeted expenditures other financing sources				1,145,748
<b>Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances</b>				<b>\$ 17,366,498</b>

See notes to the Budgetary Comparison Schedule-General Fund.

## 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund. For budgetary purposes, encumbrance accounting is used. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For USGAAP reporting purposes, encumbrances outstanding at year-end are reported as 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, 2014 representing original budget. There were no supplemental appropriations for the year ended June 30, 2014.

**Line Item #**

<b>Assets</b>	<b>Current Assets Cash:</b>	
111	Cash – Unrestricted	\$ 118,661
113	Cash- Other Restricted	29,453
<b>100</b>	<b>Total Cash</b>	<u>148,114</u>
122	Accounts Receivable – HUD Other Projects	456
<b>120</b>	<b>Total Receivables, Net of Allowances for Doubtful Accounts</b>	<u>456</u>
<b>150</b>	<b>Total Current Assets</b>	148,570
<b>Non-Current Assets</b>	<b>Fixed Assets:</b>	
164	Furniture, Equipment & Machinery - Administration	149,579
166	Accumulated Depreciation	<u>(149,198)</u>
<b>160</b>	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>381</u>
<b>180</b>	<b>Total Non-Current Assets</b>	<u>381</u>
<b>190</b>	<b>Total Assets</b>	<u>148,951</u>
<b>290</b>	<b>Total Assets and Deferred Outflow of Resources</b>	<u>\$ 148,951</u>
<b>Liabilities and Equity</b>	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
312	Accounts Payable- 90 days	9,917
333	Accounts Payable – Other Government	<u>15,381</u>
<b>310</b>	<b>Total Current Liabilities</b>	<u>25,298</u>
<b>300</b>	<b>Total Liabilities</b>	<u>25,299</u>
<b>Equity</b>	<b>Equity</b>	
508.1	Net Investment in Capital Assets	\$381
511.1	Restricted Net Position	28,990
512.1	Unrestricted Net Position	<u>94,282</u>
<b>513</b>	<b>Total Equity – Net Position</b>	<u>123,653</u>
<b>600</b>	<b>Total Liab., Def. Inflow of Res., and Equity – Position</b>	<u>\$ 148,951</u>

See notes to the Financial Data Schedule.

**Line Item #**

70600	HUD PHA Operating Grants	\$ 1,174,822
71100	Investment Income - Unrestricted	174
71500	Other Revenue	61,964
<b>70000</b>	<b>Total Revenue</b>	<u>1,236,960</u>
	<b>Expenses</b>	
	<b>Administrative:</b>	
91100	Administrative Salaries	73,578
91200	Auditing Fees	6,660
91500	Employee Benefit Contributions – Administrative	23,585
<b>91000</b>	<b>Total Operating - Administrative</b>	<u>103,823</u>
96200	Other General Expenses	19,264
<b>96000</b>	<b>Total Other General Expenses</b>	<u>19,264</u>
<b>96900</b>	<b>Total Operating Expenses</b>	<u>123,087</u>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	<u>1,113,873</u>
97300	Housing Assistance Payments	1,029,836
97350	HAP Portability-In	54,565
97400	Depreciation Expense	1,286
<b>90000</b>	<b>Total Expenses</b>	<u>1,208,774</u>
<b>10000</b>	<b>Excess (Deficiency) of total revenues Over (Under) Total Expenses</b>	<u>\$ 28,186</u>
	<b>Memo Account Information:</b>	
*11030	Beginning Equity	\$ 95,467
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	-
*11170	Administrative Fee Equity	\$ 94,663
*11180	Housing Assistance Payments Equity	\$ 28,990
*11190	Unit Months Available	181
*11210	Number of Unit Months Available	166

See notes to the Financial Data Schedule.

**1. BASIS OF PRESENTATION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Pass-through the Commonwealth of Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	\$ 17,253
<b>Total U.S. Department of Agriculture</b>			<b>17,253</b>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	N/A	1,062,932
Community Development Block Grants Section 108 Loan Guarantees	14.248	N/A	780
Section 8 Housing Choice Voucher	14.871	N/A	1,174,822
Pass-through the Commonwealth of Puerto Rico Municipality of San Juan:			
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	Not Available	19,351
<b>Total U.S. Department of Housing and Urban Development</b>			<b>2,257,885</b>
<b>U.S DEPARTMENT OF TRANSPORTATION</b>			
Pass-through the Commonwealth of Puerto Rico- Traffic Safety Commission:			
State and Community Highway Safety	20.600	Not Available	14,963
<b>Total U.S. Department of Transportation</b>			<b>14,963</b>
<b>U.S DEPARTMENT OF EDUCATION</b>			
Pass-through Commonwealth of Puerto Rico- Department of Education			
Library Services and Technology	45.310	N/A	3,118
<b>Total U.S. Department of Education</b>			<b>3,118</b>

The accompanying notes are an integral part of this schedule.

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
Pass-through the Commonwealth of Puerto Rico – Office of Ombudsman Administration (OAP): Special Program for Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	52,608
Pass-through the Commonwealth of Puerto Rico Department of Family - Administration for the Care and Integral Development of Children (ACUDEN): Child Care and Development Block Grant	93.575	Not Available	<u>162,550</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>215,158</u></b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through the Commonwealth of Puerto Rico – Governor Authorized Representative (GAR): Disaster Grants - Public Assistance (Presidentially-Declared Disasters)	97.036	Not Available	<u>34,749</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>34,749</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 2,543,126</u></b>

The accompanying notes are an integral part of this schedule.

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net assets of the Municipality.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

Description	Section 108 Loan Guarantee Fund	Other Governmental Funds	Total
Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 780	\$ 2,542,346	\$ 2,543,126
Additional amount recorded as expenditures under modified-accrual basis for Section 8 HCV Program		32,666	32,666
Non-federal awards expenditures		1,805,820	1,805,820
Total expenditures, fund statements	<u>\$ 780</u>	<u>\$ 4,380,832</u>	<u>\$ 4,381,612</u>

**4. LOAN GUARANTEE NOTES PAYABLE**

The Municipality entered into a financing agreement with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. This agreement was issued on June 12, 2008 in the amount of \$7,886,000 for the construction of a multipurpose building to be used for parking, taxi terminal and rental of commercial offices, and for the construction of mausoleums in the municipal cemetery.

The following represents the loans outstanding balance as of June 30, 2014:

<u>CFDA No.</u>	<u>Program Name</u>	<u>Loan Outstanding Balance</u>
14.248	Community Development Block Grants-Section 108 Loan Guarantee	<u>\$ 7,013,000</u>



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

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- Puerto Rico Society of Certified Public Accountants

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

**To the Honorable Mayor  
and the Municipal Legislature  
Autonomous Municipality of Toa Alta  
Toa Alta, Puerto Rico**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of **Municipality of Toa Alta, Puerto Rico**, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise **Municipality of Toa Alta's** basic financial statements and have issued our report thereon dated August 25, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the **Municipality of Toa Alta's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Municipality of Toa Alta's** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Municipality of Toa Alta'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 a timely basis. We considered the deficiencies described in the accompanying schedule of findings and questioned costs as item **2014-002 and 2014-003** to be material weaknesses.

*A significant deficiency* is a deficiency, or a combination of deficiencies, internal control that less severe than material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item **2014-001 and 2014-004** to be significant deficiencies.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the **Municipality of Toa Alta's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2014-001 thru 2014-2004**.

We noted certain other matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated August 25, 2015.

**Municipality of Toa Alta's Response to Findings**

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

**Purpose of this Report**

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

*López Vega, CPA PSC*

**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
August 25, 2015

Stamp No. 2705484 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors



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

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

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

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

We have audited **Municipality of Toa Alta's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the **Municipality of Toa Alta's** major federal programs for the year ended June 30, 2014. The **Municipality of Toa Alta's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

**Opinion on Each Major Federal Program**

In our opinion, the **Municipality of Toa Alta** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2014-005** and **2014-007**. Our opinion on each major federal program is not modified with respect to these matters.

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

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

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.

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



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

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We considered the deficiencies in internal control over compliance in the accompanying schedule of findings and questioned costs as items **2014-005** through **2014-007** to be significant deficiencies.

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

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

We noted certain matters that we reported to management of the **Municipality of Toa Alta** in a separate letter dated August 25, 2015.

*López Vega, CPA PSC*  
**LOPEZ-VEGA, CPA, PSC**

San Juan, Puerto Rico  
August 25, 2015

Stamp No. 2705485 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



*López-Vega, CPA, PSC*

Certified Public Accountants / Management Advisors

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	<b>Unmodified, except for qualified for government-wide financial statements</b>	
Internal control over financial reporting:		
Material weakness identified?	Yes <b>X</b>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	No
Noncompliance material to financial statements noted?	Yes <b>X</b>	No

**Federal awards**

Internal Control over major programs:		
Material weakness identified?	Yes	No <b>X</b>
Significant deficiencies identified not considered to be material weaknesses?	Yes <b>X</b>	No
Type of auditor’s report issued on compliance for major programs:	<b>Unmodified</b>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes <b>X</b>	No

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant-Entitlement Grant
14.871	Section 8 Housing Choice Vouchers

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

**Section II – Financial Statements Findings**

***Significant deficiencies in internal controls that are considered material weaknesses are indicated as (MW) and those that are instances of noncompliance are indicated as (NC).***

<b>Finding Reference</b>	<b>2014-001</b>
<b>Requirement</b>	<b>Financial Reporting – Accounting Records (NC)</b>
<b>Statement of Condition</b>	During our examination of the Municipality’s accounting system, we noted that the accounting data still requires several reporting adjustment in order to present the Municipality’s financial statements in the modified-accrual basis of accounting and to produce the government-wide financial statements. Also, \$623,398 in prior period adjustments were made to the Fund Financial Statements.
<b>Criteria</b>	Chapter VII Article 8.010 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain an effective and updated accounting system. Sections (a) & (b) of the Act, indicate that the accounting management system established in the Municipality should provide adequate and effective financial information for management decisions and in accordance with accounting principles general accepted in the United States of America and established by the Governmental Accounting Standard Board (GASB).
<b>Cause of Condition</b>	The Municipality did not establish effective internal control over the transactions recorded on its accounting system.
<b>Effect of Condition</b>	The Municipality’s accounting system does not provide updated and complete financial information that presents accurately its financial position. Also, the lack of training of the accounting personnel for the preparation of complex reports, i.e. annual financial statements, could restrict the adequate response of management in financial public affair issues.
<b>Recommendation</b>	We recommend the Municipality implements internal control procedures in order to maintain an accounting system that contains all information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	As a measurement for achieving an accounting system that provides updated and complete financial information, the Finance and Budget Director will strengthen the existing internal control procedures related to the accounting system. The accounting department will be reorganized in order to ensure the implantation of such control and procedures.
	Implementation Date: Fiscal Year 2015-2016
	Responsible Person: Mr. Miguel Piñeiro Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2014-002</b>
<b>Requirement</b>	<b>Municipal landfill closure and post-closure costs obligation recognition (MW) &amp; (NC)</b>
<b>Statement of Condition</b>	The Municipality has not updated the estimate of the obligation for landfill closure and post closure costs recorded as a liability in the Municipality’s government-wide financial statements for the year ended June 30, 2014.
<b>Criteria</b>	GASB Statements No. 18 requires that the Municipality should estimate the closure and post closure costs of its landfill facilities. That estimate should include the current cost of capital assets, final cover, and monitoring and maintenance activities.
<b>Cause of Condition</b>	The Municipality did not perform a study of the estimated cost of the closure and post closure costs of its landfill facilities.
<b>Effect of Condition</b>	The Municipality is not in compliance with the GASB Statement No. 18 requirements.
<b>Recommendation</b>	We recommend that the Municipality should contract professional services in order to prepare a formal study of the costs related to the landfill closure.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality’s Management will update the estimate of closure and post closure cost of its landfill facilities in order to include an updated liability in the fiscal year 2014-2015 government-wide financial statements.
	Implementation Date: Fiscal Year 2015-2016
	Responsible Person: Mr. Miguel Piñeiro Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2014-003</b>
<b>Requirement</b>	<b>Capital Assets and Expenditures – Subsidiary Ledger (MW) &amp; (NC)</b>
<b>Statement of Condition</b>	The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly, the amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities are not determinable.
<b>Criteria</b>	Chapter IX, Article 9.002 of State Act Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.
<b>Cause of Condition</b>	Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.
<b>Effect of Condition</b>	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.
<b>Recommendation</b>	We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.
<b>Questioned Cost</b>	None
<b>Management Response and Corrective Action</b>	The Municipality’s Finance Department staff plans to continue in their effort to update the capital assets subsidiary ledger, principally the construction in progress and infrastructure assets.

Implementation Date: Fiscal Year 2015-2016

Responsible Person: Mr. Miguel Piñero  
Finance Department Director

**Section II – Financial Statements Findings**

<b>Finding Reference</b>	<b>2014-004</b>
<b>Requirement</b>	<b>Operating deficit of general fund (NC)</b>
<b>Statement of Condition</b>	The Municipality closed its fiscal year ended on June, 30, 2014 with a deficit in the general fund of \$1,959,094.
<b>Criteria</b>	In accordance with the Guide for the Administration of Municipalities Chapter IV, Section 19, the Finance Director has the responsibility of overseeing financial operations to prevent deficits in any municipal fund.
<b>Cause of Condition</b>	The overstatement of estimated revenues accounts in prior years caused that the Municipality operated with a deficit.
<b>Effect of Condition</b>	The continued occurrence of this situation may result in possible significant fund limitations and eventual reduction or elimination of municipal services since future revenues will need to be used to pay for accumulated liabilities.
<b>Recommendation</b>	The Municipality should continue its effort by revising and amending the budget as current information related to collections of budgeted revenues becomes available resources.
<b>Questioned Costs</b>	None
<b>Management Response and Corrective Action</b>	The Municipality's Management concurs with the auditor's recommendation.

Implementation Date: Still in process

Responsible Person: Mr. Miguel Piñeiro  
Finance Department Director

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

<b>Finding Reference</b>	<b>2014-005</b>
<b>Program</b>	<b>Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development</b>
<b>Requirement</b>	<b>Special Test – Utility Allowance Schedule (NC)</b>
<b>Statement of Condition</b>	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2014. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rates.
<b>Criteria</b>	Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category on a yearly basis and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
<b>Cause of Condition</b>	The PHA did not follow the procedures established to review utility rate date each year.
<b>Effect of Condition</b>	The PHA is not in compliance with the Code of Federal Regulations 24, Subpart K, and Section 982.517.
<b>Recommendation</b>	The PHA should evaluate utility allowance rate each year as established in the federal regulations.
<b>Questioned Costs</b>	None.
<b>Management Response and Corrective Action</b>	The Section 8 Program's personnel update the utility allowance rates per the federal regulations standards during fiscal year 2014-2015.  Implementation Date: Fiscal Year 2015-2016  Responsible Person: Mr. Ramón E. Diaz Federal Programs Director

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

**Finding Reference**      2014-006

**Program**                      **Community Development Block Grant-Entitlement Program (CFDA 14.218); U.S. Department of Housing and Urban Development**

**Requirement**                **Cash Management**

**Statement of Condition** We performed a Cash Management Test and examined four (4) fund requisitions made during the program year ended on June 30, 2014. Also, we verified the bank statements and cash reconciliations for that period. The following summarizes the situations found:

- a) The disbursements related to four (4) requisitions of funds were made between 11 to 14 days after the deposits were made.
- b) The cash balance shows a higher reconciled balance in the following months:

Month	Adjusted Bank Cash Balance per Reconciliation
Jan-14	180,143.30
Mar-14	8,849.01
Abr-14	8,008.48

**Criteria**                              Code of Federal Regulations 24, Subpart I, Sec.570.489 (c) requires a cash management system in order to minimize the time elapsed between the transfer of funds from the pass-through grantor and disbursements made by the grantee.

**Cause of Condition**            The Municipality’s disbursements procedures failed to ensure that funds requested and received from the pass-through grantor be disbursed in compliance with the Code of Federal Regulations Requirements.

**Effect of Condition**            The Municipality is not in compliance with Code of Federal Regulations 24, Subpart I, Sec. 570.489 (c).

**Recommendation**            We recommend Management strengthens its disbursement procedures to minimize the time elapsed between the transfer of funds from the Federal Agency and the disbursements made by the Municipality.

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

**Finding Reference**      2014-006 (Continued)

**Questioned Costs**      None

**Management Response**

**And Corrective Action**      We will improve our request for funds and disbursement procedures in order to reduce the time lapse between requests and the issuance of payments to suppliers and therefore, reduce the monthly cash available balance.

Implementation Date:      Fiscal Year 2015-2016

Responsible Person:      Mr. Ramón E. Diaz  
Federal Programs Director

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

<b>Finding Reference</b>	<b>2014-007</b>
<b>Requirement</b>	<b>Single Audit Act (NC)</b>
<b>Statement of Condition</b>	The Single Audit Report for the fiscal year ended June 30, 2014 was not issued within nine (9) months after the end of the audit period.
<b>Criteria</b>	The Single Audit Act of 1984, as amended, requires that the audit report must be submitted to the Federal Audit Clearinghouse no later than nine (9) months after the end of the audit period.
<b>Cause of Condition</b>	The Municipality did not comply with the established regulation as prescribed in OMB Circular A-133.
<b>Effect of Condition</b>	The Municipality could lose federal grants due to the noncompliance with the Single Audit Act requirements.
<b>Recommendation</b>	Procedures should be implemented to ensure that the Municipality complies with the established Federal Regulation, as prescribed by OMB Circular A-133.
<b>Questioned Costs</b>	None
<b>Management Response And Corrective Action</b>	We will improve our internal controls procedures related to record keeping and year-adjustments in order to ensure compliance with the March 31 federal requirement.  Implementation Date: Fiscal Year 2015-2016  Responsible Person: Mr. Ramón E. Diaz and Mr. Miguel Piñeiro Federal Programs Director and Finance Department 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)
13-03	14.218	<p><u>During our Davis-Bacon Act test, we verified (1) construction project file. The following will summarize the exceptions noted: (a) We noted that during the fiscal year 2012-2013, the Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid. (a) We did not obtain evidence that the Municipality's monitors certified the weekly payroll supplied by the contractors.(c) Payrolls were not issued for the entire contract period.</u></p> <p>Full corrective action was taken.</p>
12-01	14.871	<p><u>The Municipality should make an effort to determine whether the PHA is documenting the determination that the rent to the owners is reasonable in accordance with PHA's administrative plan at initial leasing and during the term of the contract.</u></p> <p>Full corrective action was taken.</p>
12-02	14.218	<p><u>The Municipality must include the required clauses in all construction contracts financed by federally assistance funds and follow Davis Bacon Procedures.</u></p> <p>Full corrective action was taken.</p>
12-03	14.871	<p><u>The Municipality should become familiar with federal law enforcement of compliance to assure that HAP Register includes all required information and documentation.</u></p> <p>Full corrective action was taken.</p>
12-04	14.218	<p><u>The Municipality should become familiar with federal law enforcement of compliance to assure that Housing Rehabilitation Program maintained by the PHA comply with federal requirements related to all required information and documentation to the participants.</u></p> <p>Full corrective action was taken.</p>