

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

**MUNICIPIO DE SANTA ISABEL
AUDITORÍA 2014-2015**

30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO MUNICIPALITY OF SANTA ISABEL



SINGLE AUDIT REPORT

For the Fiscal Year Ended June 30, 2015
(With Independent Auditors' Report Thereon)

Municipality of Santa Isabel, P.O. Box 725, Santa Isabel, Puerto Rico 00757
Hon. Enrique H. Questell Alvarado

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Single Audit Report
June 30, 2015

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Viviana Vélez Carrasquillo

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Santa Isabel, Puerto Rico**

Report on the Financial Statements

I have audited the accompanying financial statements of each major fund, and the aggregate remaining fund information of the Municipality of **Santa Isabel**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. I was engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Disclaimer of Opinion on Governmental Activities

The Municipality did not maintain a complete, updated and accurate capital assets subsidiary ledger, in order to obtain sufficient and competent evidential matter related to the capital assets reported in the accompanying statement of net position for \$23,013,643, net of accumulated depreciation of \$11,739,678. The Municipality's records do not permit the application of other auditing procedures to the capital assets.

The deferred outflow/ inflows of resources and the net pension liability in the statement of position, and the pension expense for the current period change of the net pension liability in the statement of activities, of the government wide financial statements were derived from the application of the proportional share included in the unaudited financial statements, notes and the required supplementary information of the State Employees' Retirement System Administration, which is a cost-sharing multiple-employer pension plan. Such amounts represents the 100%, 38% and 9% of the deferred outflows/ inflows of resources, total liabilities as of June 30, 2015, and expenses for the fiscal year ended, respectively. I was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/ inflows of resources, net pension liability, and pension expense of the governmental activities and the note disclosure of the pension plan. Accordingly, I was unable to determine whether any adjustments to these amounts and disclosure were necessary.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the governmental activities of the Municipality as of June 30, 2015, or the changes in financial position, thereof for the year then ended. Accordingly, I do not express an opinion on these financial statements.

Basis for Qualified Opinion on the General Fund, the State Legislative Joint Resolutions Fund, the Capital Improvement Fund and the aggregate remaining fund

The Municipality did not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I was unable to obtain sufficient evidence to support and satisfy myself about the amount of \$2,205,142, recorded in the interfund balances of the General Fund, the State Legislative Joint Resolutions Fund, the Capital Improvement Fund and the aggregate remaining fund in the balance sheet.

Qualified Opinion

In my opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion on the General Fund, the State Legislative Joint Resolutions Fund, the Capital Improvement Fund and the aggregate remaining fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund, the State Legislative Joint Resolutions Fund, the Capital Improvement Fund and the aggregate remaining fund of the Municipality, as of June 30, 2015, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Municipal Medical Center and the Debt Service Fund as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the fiscal year 2014-2015, the Municipality adopted new accounting guidance, GASB 68, Accounting and Financial Reporting for Pensions and the related GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68. The financial statements were restated, as a result of the implementation of these standards. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule and information about the pension plan of the Municipality's employees on pages 5 through 16, 76 through 79 and 80 through 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. I was unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to the Municipality, in accordance with auditing standards generally accepted in the United States of America. I do not express an opinion or provide any assurance on the information.

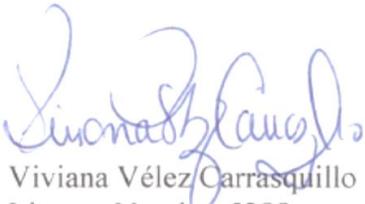
Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The Schedule of Expenditures of Federal Awards 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 the Financial Data Schedule is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development and is also not a required part of the financial statements. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on Governmental Activities", it is inappropriate to and I do not express an opinion on the supplementary information referred to above.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 30, 2016, on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


Viviana Vélez Carrasquillo
License Number 5288

Carolina, Puerto Rico
November 30, 2016



**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

As management of the **Municipality of Santa Isabel** (the Municipality), we offer readers the following discussion and analysis of the Municipality's financial activities reported in the accompanying basic financial statements as of and for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the accompanying financial statements, which follow this narrative.

This MD&A is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements include three components: (1) government-wide financial statements (GWFS); (2) fund financial statements (FFS); and (3) notes to the financial statements (NBFS). This report also contains additional required supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of financial statements that present different views of the Municipality, the government-wide financial statements (GWFS) and the fund financial statements (FFS). These financial statements also include the notes to the basic financial statements (NBFS) that explain some of the information in the financial statements and provide more detail.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's total assets amounted to \$34,993,032 at June 30, 2015, of which \$23,013,643 consist of capital assets (net of accumulated depreciation and amortization of \$11,739,678), \$2,580,330 consist of cash and cash equivalents, \$8,351,818 consist of cash with fiscal agent (which are restricted principally for capital projects and debt service) and \$1,047,241 consist of accounts receivable.
- The Municipality's total liabilities amounted to \$64,123,669 at June 30, 2015, of which \$1,795,247 consist of accounts payable and accrued liabilities, \$2,054,200 consist of intergovernmental payables, \$529,172 consist of accrued interest payable on long-term debt, \$1,518,899 consist of unearned revenues, \$26,388,500 consist of bonds and notes payable, \$1,144,793 consist of accrued compensated absences, \$829,090 consist of notes payable to the Municipal Revenue Collection Center (CRIM, by its Spanish acronyms), \$114,288 consist of accrued christmas bonus, \$162,767 consist of claims and judgment payable, \$5,289,600 consist of estimated landfill closure and post closure care costs, and \$24,297,113 consists of net pension liability.
- The Municipality's total liabilities exceeded its assets (net liabilities) by (\$28,267,067) at June 30, 2015.
- The Municipality's total revenues amounted to \$15,289,598 for the fiscal year ended June 30, 2015, of which \$7,801,905 arose from taxes, \$6,113,676 arose from intergovernmental grants and contributions, and \$1,374,017 arose from charges from services, miscellaneous revenues and interest on deposits.
- The Municipality's total expenses amounted to \$16,273,114 for the fiscal year ended June 30, 2015, of which \$9,571,068 were incurred in providing direct services and benefits to citizens in relation to urban and economic development, health and sanitation, public safety, welfare and housing assistance and, culture, recreation and education. In addition, the Municipality incurred in \$1,088,956 of its total expenses, in interests related to its long-term obligations, and \$5,613,090 in general government activities to support the Municipality's functions and

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programs. The Municipality's total expenses include depreciation and amortization of capital assets in the amount of \$999,520 for the fiscal year ended June 30, 2015.

- The Municipality's total net position decreased by \$983,516 during the fiscal year ended June 30, 2015.

Governmental Funds' Highlights:

- The total fund balances of governmental funds amounted to \$4,977,813 at June 30, 2015, which are restricted for capital projects, debt service and other specific purposes.
- The governmental funds presented an unassigned fund deficit of (\$3,949,569).
- The fund balances of governmental funds increased by \$1,417,490 during the fiscal year ended June 30, 2015.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The purpose of financial reporting is to provide external users of basic financial statements with information that will help them to make decisions or draw conclusions about the Municipality. There are many external parties that use the basic financial statements of the Municipality; however, these parties do not always have the same specific objectives. In order to address the needs of as many parties as reasonably possible, the Municipality, in accordance with required financial reporting standards, presents this Management's Discussion and Analysis (MD&A) as an introduction to the accompanying basic financial statements. This narrative represents an overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. Because this MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the additional information furnished in the accompanying basic financial statements.

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

The basic financial statements focus on: (1) the Municipality as a whole (government-wide financial reporting) and, (2) the Municipality's major individual governmental funds. Both perspectives allow the users to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability. The components of the basic financial statements are described below:

a) Government-Wide Financial Statements

The GWFS are composed of: (1) the statements of net position (SNP) and (2) the statement of activities (SA). These financial statements can be found immediately following this MD&A. GWFS are designed to provide readers with a broad overview of the Municipality's operations as a whole in a manner similar to private-sector businesses. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at June 30, 2015. The GWFS are prepared using methods that are similar to those used by most private businesses.

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Both of the government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental activities (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

1. Statement of Net Position

The purpose of SNP is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports of all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

The difference between the Municipality's total assets and total liabilities reported in SNP is presented as *net position*, which is similar to the total owners' equity reported by a commercial enterprise in its financial statements. Although the purpose of the Municipality is not to accumulate net position, as this amount increases or decreases over time, such amount represents a useful indicator of whether the financial position of the Municipality is either improving or deteriorating, respectively.

2. Statement of Activities

The SA presents information showing how the Municipality's net position changed during the fiscal year ended June 30, 2015, by presenting all of the Municipality's revenues and expenses. As previously discussed, the items reported in SA are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied, and expenses are recorded when incurred by the Municipality. Consequently, revenues are reported even when they may not be collected for several months after the end of the fiscal year and expenses are recorded even though they may not have used cash during the current year.

Although SA looks different from a commercial enterprise's income statement, the difference is only in format, not substance. Whereas the bottom line in a commercial enterprise represents its net income, the Municipality reports an amount described as *net change in net position*, which is essentially the same concept.

The focus of SA is on the *net cost* of various activities provided by the Municipality. The statement begins with a column that identifies the cost of each of the Municipality's major functions. Another column identifies the revenues that are specifically related to the classified governmental functions. The difference between the expenses and revenues related to specific functions/programs identifies the extent to which each function of the Municipality draws from general revenues or is self-financing through fees, intergovernmental aid, and other sources of resources.

This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

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GWFS and FFS present all of the Municipality's governmental activities, which are supported mostly by taxes, intergovernmental revenues (such as federal and state grants and contributions), and charge for services. All services normally associated with the Municipality fall into this category, including culture, recreation and education; general government; health and sanitation; public safety; welfare and housing assistance; and urban and economic development.

b) Fund Financial Statements

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

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

1. Governmental funds

Governmental funds are used to account for most of the services provided by the Municipality. These funds are used to account for essentially the same functions reported as governmental activities in the GWFS. Unlike GWFS, the focus of governmental funds in the FFS is directed to specific activities of the Municipality rather than the Municipality as a whole; therefore, governmental funds in FFS report the Municipality's operations in more detail than the GWFS.

Governmental funds in FFS provide a detailed short-term view of the Municipality's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, which is, evaluating the Municipality's near-term financing requirements. For financial reporting purposes, the Municipality classifies its governmental funds within the following types: (1) general fund, (2) debt service fund, (3) special revenue funds, (4) capital projects funds and (5) permanent funds.

Governmental funds FFS are prepared on an accounting basis that is significantly different from that used to prepare GWFS. In general, governmental funds FFS focus on near-term inflows and outflows of expendable financial resources, consequently, they measure and account for cash and other assets that can easily be converted to cash. For example, amounts reported on the balance sheet include capital assets within a very short period of time, but do not include capital assets such as land and buildings. Governmental fund liabilities generally include amounts that normally are going to be paid within a short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is reported as the fund balance or deficit, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for

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governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current fiscal year or very shortly after the end of the fiscal year.

Because the focus of governmental funds FFS is narrower than that of the GWFS, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the GWFS. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions. Both the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and the governmental activities reported in the government-wide financial statements.

The Municipality has four major governmental funds. Each major fund is presented in a separate column in the balance sheet – governmental funds and the statement of revenues, expenditures and changes in fund balances – governmental funds. The five major governmental funds are: (1) general fund, (2) state legislative joint resolutions fund, (3) municipal medical center fund, (4) capital improvements bonds fund and (5) debt service fund.

c) Notes to Basic Financial Statements

The NBFS provide additional information that is essential for a full understanding of the data provided in the GWFS and FFS. The NBFS can be found immediately following the basic financial statements.

d) Other Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes 1) General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end and, 2) pension plan and employer trend information related to the net pension liability and employer contributions.

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position and operations at June 30, 2015 and 2014 are summarized as follows, based on the information included in the accompanying statement of net position:

	Governmental activities		Change	
	2015	2014	\$	%
		(restated)		
Assets:				
Current assets	\$ 11,979,389	\$ 9,626,908	\$ 2,352,481	24%
Non-current assets:				
Capital assets, net	23,013,643	21,618,969	1,394,674	6%
Total assets	<u>34,993,032</u>	<u>31,245,877</u>	<u>3,747,155</u>	<u>30%</u>
Deferred outflows of resources:				
Deferred outflows for pensions	1,058,006	171,926	886,080	515%
Total deferred outflows of resources	<u>1,058,006</u>	<u>171,926</u>	<u>886,080</u>	<u>515%</u>
Liabilities:				
Current liabilities, excluding long-term obligations	5,897,518	5,244,099	653,419	12%
Long-term obligations:				
Due within one year	2,549,361	2,310,644	238,717	10%
Due after one year	55,676,790	51,146,611	4,530,179	9%
Total liabilities	<u>64,123,669</u>	<u>58,701,354</u>	<u>5,422,315</u>	<u>31%</u>
Deferred inflows of resources:				
Deferred inflows for pensions	194,436	-	194,436	194436%
Total deferred inflows of resources	<u>194,436</u>	<u>-</u>	<u>194,436</u>	<u>194436%</u>
Net position (deficit):				
Invested in capital assets, net of related debt	15,924,533	15,808,049	116,484	1%
Restricted	6,776,713	7,836,474	(1,059,761)	(14%)
Unrestricted	(50,968,313)	(50,928,074)	(40,239)	0%
Total net position (deficit)	<u>\$(28,267,067)</u>	<u>\$(27,283,551)</u>	<u>\$ (983,516)</u>	<u>(13%)</u>

At June 30, 2015, the Municipality's current assets, amounting to \$11,979,389 are mainly composed of restricted and unrestricted cash and cash equivalents (\$2,580,330), restricted cash with fiscal agent (\$8,351,818), property taxes receivable (\$148,294) sales tax receivable (\$194,811), and restricted and unrestricted intergovernmental grants and contributions receivable (\$577,252).

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The restricted cash represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded grant programs. Restricted cash also consists of unspent proceeds of bonds issued for acquisition, construction and improvement of major capital assets, and to pay operational debts.

The Municipality's non-current assets, amounting to \$23,013,643 at June 30, 2015, are composed of capital assets, with a cost basis of \$34,753,321, which are reported net of accumulated depreciation and amortization of \$11,739,678.

At June 30, 2015, the Municipality's current liabilities (excluding current portion of long-term liabilities) amounting to \$5,897,518 are mainly composed of unearned revenues (\$1,518,899), accounts payable and accrued liabilities (\$1,795,247), and intergovernmental payables (\$2,054,200). Unearned revenues principally consist of municipal license taxes and intergovernmental grants and contributions related to state and federally funded grant programs.

The Municipality's non-current liabilities, amounting to \$58,226,151 at June 30, 2015, are mainly composed of current portion on bonds and other debts payable (\$944,000 and \$1,605,361, respectively), and \$55,676,790 related the long term portion of bonds and notes payable to CRIM, compensated absences, claims and judgments, estimated landfill closure and post closure care costs and net pension liability.

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. The liabilities of the Municipality exceeded assets by (\$28,267,067) at June 30, 2015. The most significant portion of net position (\$15,929,533) reflects the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, furniture, fixtures, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Another significant portion of net position at June 30, 2015, represents resources that are restricted for debt service payments (\$4,827,027) and for other specified purposes (\$1,949,686).

The remaining component of total net position consists of unrestricted net liabilities amounting to (\$50,968,313) at June 30, 2015. These unrestricted net liabilities are the consequence of previous budgets that did not provide sufficient funding for incurred long-term obligations, such as bonds and notes payable, compensated absences, net pension liability, etc. Historically, a significant portion of such obligations has been budgeted on a pay-as-you-go basis.

The total net position of the Municipality decreased by (\$983,516) for the fiscal year ended June 30, 2015. Such decrease is due to the excess of total expenses (\$16,273,114) over total revenues (\$15,289,598), including depreciation and amortization of capital assets of (\$999,520), for the fiscal year ended June 30, 2015.

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**MUNICIPALITY OF SANTA ISABEL,
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The following is a condensed presentation of the Municipality's results of operations as reported in the statement of activities for the fiscal years ended June 30, 2015 and 2014:

	Governmental activities		Change	
	2015	2014 (restated)	\$	%
Program revenues:				
Program-specific operating grants and contributions	\$ 1,037,524	\$ 1,956,531	\$ (919,007)	(47%)
Program-specific capital grants and contributions	476,289	819,446	(343,157)	(42%)
Charges for services	776,396	1,275,631	(499,235)	(39%)
Total program revenues	<u>2,290,209</u>	<u>4,051,608</u>	<u>(1,761,399)</u>	<u>(128%)</u>
General revenues:				
Property taxes	3,841,763	3,635,315	206,448	6%
Municipal license taxes	1,571,905	1,653,635	(81,730)	(5%)
Sales and use taxes	272,672	448,725	(176,053)	(39%)
Construction excise taxes	2,115,565	2,771,197	(655,632)	(24%)
Unrestricted grants and contributions	4,599,863	5,231,412	(631,549)	(12%)
Other general revenues (various sources)	597,621	399,632	197,989	50%
Total general revenues	<u>12,999,389</u>	<u>14,139,916</u>	<u>(1,140,527)</u>	<u>(24%)</u>
Total revenues	<u>15,289,598</u>	<u>18,191,524</u>	<u>(2,901,926)</u>	<u>(152%)</u>
Program expenses:				
General government	5,613,090	5,790,006	(176,916)	(3%)
Urban and economic development	4,404,916	6,278,491	(1,873,575)	(30%)
Public safety	856,270	543,302	312,968	58%
Health and sanitation	2,824,115	4,539,981	(1,715,866)	(38%)
Culture, recreation and education	828,627	1,160,942	(332,315)	(29%)
Welfare and housing assistance	657,140	506,855	150,285	30%
Interest on long-term obligations	1,088,956	987,354	101,602	10%
Total expenses	<u>16,273,114</u>	<u>19,806,931</u>	<u>(3,533,817)</u>	<u>(2%)</u>
Net increase (decrease) in net position	(983,516)	(1,615,407)	631,891	(150%)
Net position, at beginning of fiscal year, as restated	<u>(27,283,551)</u>	<u>(25,668,144)</u>	<u>(1,615,407)</u>	<u>6%</u>
Net position, at end of fiscal year	<u>\$ (28,267,067)</u>	<u>\$ (27,283,551)</u>	<u>\$ (983,516)</u>	<u>(144%)</u>

As previously mentioned, the Municipality's total net position decreased by (\$983,516) during the current fiscal year. Approximately 51% (\$7,801,905) of the Municipality's total revenues for the current fiscal year came from property, municipal license, construction excise and sales and use taxes, while 40% (\$6,113,676) resulted from restricted and unrestricted capital and operating grants and contributions. Charges for services and other revenues, amounting to \$1,374,017, provided 9% of the total revenues for the current fiscal year.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2015 were related to: (1) general administrative and operating costs (\$5,613,090), which were classified as "general government" and accounted for 35% of total expenses, (2) welfare and housing assistance (\$657,140), which accounted for 4% of total expenses, (3) health and sanitation (\$2,824,115), which accounted for 17% of total expenses, (4) urban and economic development (\$4,404,916), which accounted for 27% of total expenses, (5) public safety (\$856,270), which accounted for 5% of total expenses, (6) culture, recreation and education (\$828,627), which accounted for 5% of total expenses, and (7) interest on long-term obligations (\$1,088,956), which accounted for 7% of total expenses. These expenses include depreciation of capital assets and deferred charges in the amount of \$999,520, for the fiscal year ended June 30, 2015.

FINANCIAL ANALYSIS OF GOVERNMENTAL ACTIVITIES

Analysis of Financial Position of Governmental Funds

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Municipality's compliance with finance-related legal requirements. Specifically, unreserved fund balance may serve as a useful measure of the Municipality's net resources available for spending at the end of the fiscal year.

At June 30, 2015, the total assets of governmental funds amounted to \$14,184,531, which consisted of: (1) cash and cash equivalents of \$2,580,330; (2) cash in fiscal agent of \$8,351,818; (3) Due from other funds of \$2,205,142, and; (4) property, construction excise and sales taxes, intergovernmental, accrued interests and other receivables of \$1,047,241. Such assets include cash, cash equivalents and receivables that are principally used for debt service, capital projects and other specific purposes.

At June 30, 2015, the total liabilities of governmental funds amounted to \$8,995,660, which consisted of: (1) unearned revenues of \$1,518,899; (2) accounts payable and accrued liabilities of \$1,795,247; (3) intergovernmental accounts payable of \$2,054,200; (4) Due to other funds of \$2,205,142, and; (5) matured bonds and interests due and payable of \$1,422,172.

At June 30, 2015, the total deferred inflows of resources of governmental funds amounted to \$211,058, which consisted of unavailable revenues.

The total fund balances of governmental funds amounted to \$4,977,813 at June 30, 2015, which are restricted for capital projects, debt service and other specific purposes. The fund balances of governmental funds increased by \$1,417,490 during the fiscal year ended June 30, 2015.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The following table presents the condensed financial position of governmental funds at June 30, 2015 and 2013:

	2015	2014
Assets:		
Total assets - major governmental funds	\$ 13,529,394	\$ 10,272,942
Total assets - other governmental funds	655,137	1,679,100
Combined total assets	<u>14,184,531</u>	<u>11,952,042</u>
Liabilities:		
Total liabilities - major governmental funds	8,502,091	7,574,991
Total liabilities - other governmental funds	493,569	751,242
Combined total liabilities	<u>8,995,660</u>	<u>8,326,233</u>
Deferred Inflows of Resources:		
Total liabilities - major governmental funds	211,058	65,486
Total liabilities - other governmental funds	-	-
Combined total deferred inflows of resources	<u>211,058</u>	<u>65,486</u>
Fund balances (deficits):		
Restricted, Committed or Assigned – Major Funds	8,765,814	7,184,475
Restricted, Committed or Assigned – Other Funds	161,568	927,858
Unassigned	(3,949,569)	(4,552,010)
Combined total fund balances	<u>4,977,813</u>	<u>3,560,323</u>
Total liabilities and fund balances	<u>\$ 14,184,531</u>	<u>\$ 11,952,042</u>

BUDGETARY HIGHLIGHTS

a) General Fund

The original budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$10,794,087. The final budget of the general fund for the fiscal year ended June 30, 2015 amounted to \$10,794,087. Over the course of the fiscal year, the Municipality revised the GF's budget in order to include increases and decreases in expenditures. The laws and regulations of the Commonwealth mandate a balanced budget.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$10,456,646, which is \$337,441 lower than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were \$9,508,101, which is \$1,078,011 less than the budgeted expenditures.

The most significant fluctuations in actual revenues occurred in sales, municipal licence and construction excise taxes, which had actual revenues that were \$293,604, \$77,000 and 187,328 lower than budgeted, while actual revenues in interest on deposits and miscellaneous exceeded budgeted revenues by \$153,002 and \$108,695, respectively.

Also, the most significant fluctuations in actual expenditures occurred in general government and culture, recreation and education, which had actual expenditures that were \$1,050,987 and \$199,364 less than budgeted, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

a) Capital Assets

The Municipality has invested \$34,753,321 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of \$11,739,678 at June 30, 2015. The net capital assets of governmental activities increased by \$1,394,674 during the current fiscal year due to the current fiscal year's capital additions (\$2,394,194), exceeded the depreciation and amortization expense (\$999,520) for the same period.

b) Debt Administration

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

At June 30, 2015, the Municipality's total bonded debt amounted to \$26,388,500, consisting of bonds payable. Such debt is backed by the full faith and credit of the Municipality. The following is a summary of the debt activity for the fiscal year ended June 30, 2015.

- Bonds payable increased by \$2,749,000 by the net effect of total principal payments on bonds made during the current fiscal year (\$806,000), and the issuance of bond during the current year (\$3,555,000).

The Municipality has also certain outstanding notes payable due to CRIM (\$829,090). Such notes payable decreased by \$34,495 during the current fiscal year due to principal payments made during the same period.

Furthermore, the Municipality has estimated the landfill closure and post closure care costs in approximately \$5,289,600.

Also, in fiscal year 2015, the Municipality adopted the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board ("GASB"): 1) GASB Statement No. 68, Accounting and Financial Reporting for Pension - an Amendment of GASB Statement No. 27 ; 2) GASB Statement No. 69, Government Combinations and Disposals of Government Operations; and GASB Statement No. 71, Pension Transition for

**MUNICIPALITY OF SANTA ISABEL,
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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2015

Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68. The adoption of these Statements require the recognition of net pension liability for approximately \$24,297,113 at June 30, 2015.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the Municipality's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Municipality of Santa Isabel, Department of Finance.

Commonwealth of Puerto Rico
Municipality of Santa Isabel
Statement of Net Position
June 30, 2015

Assets

Current assets:	
Cash in commercial banks	\$ 2,580,330
Cash with fiscal agent	8,351,818
Accounts receivable, net of allowance for doubtful accounts:	
Property taxes	148,294
Intergovernmental	577,252
Sales tax	194,811
Municipal license	13,163
Construction excise taxes	2,241
Interest	13,040
Miscellaneous	98,440
Total current assets	11,979,389
 Noncurrent assets:	
Capital assets, net of accumulated depreciation and amortization of \$11,739,678	23,013,643
Total noncurrent assets	23,013,643
Total assets	\$ 34,993,032
 Deferred outflows of resources:	
Deferred outflows for pensions	\$ 1,058,006
Total deferred outflows of resources	\$ 1,058,006
 Current Liabilities (due within one year):	
Accounts payable	\$ 1,795,247
Intergovernmental payables	2,054,200
Accrued interest payable on long-term debt	529,172
Unearned revenues	1,518,899
Current portion of long-term obligations:	
Bonds payable	944,000
Other debts	1,605,361
Total current liabilities	8,446,879
 Noncurrent liabilities (due in more than one year):	
Total liabilities	\$ 64,123,669
 Deferred inflows of resources:	
Deferred inflows for pensions	\$ 194,436
Total deferred inflows of resources	\$ 194,436
 Net position:	
Invested in capital assets, net of related debt	\$ 15,924,533
Restricted for:	
Capital projects	
Debt service	4,827,027
Other specified purposes	1,949,686
Unrestricted	(50,968,313)
Total net position	\$ (28,267,067)

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

Commonwealth of Puerto Rico
Municipality of Santa Isabel
Statement of Activities
June 30, 2015

<u>Functions/programs</u>	<u>Expenses</u>	<u>Charges for services</u>	<u>Program Revenues</u>		<u>Net Expenses and Charges in Net Assets</u>
			<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>	
Governmental activities :					
General government	\$ 5,613,090	\$ -	\$ -	\$ -	\$ (5,613,090)
Urban and economic development	4,404,916	3,000	-	476,289	(3,925,627)
Public safety	856,270	42,398	-	-	(813,872)
Health and sanitation	2,824,115	730,998	322,494	-	(1,770,623)
Culture, recreation and education	828,627	-	472,183	-	(356,444)
Welfare and housing assistance	657,140	-	242,847	-	(414,293)
Interest on long-term obligation	1,088,956	-	-	-	(1,088,956)
Total governmental activities	<u>\$ 16,273,114</u>	<u>\$ 776,396</u>	<u>\$ 1,037,524</u>	<u>\$ 476,289</u>	<u>\$ (13,982,905)</u>

General Revenues:

Taxes:

Property taxes	3,841,763
Municipal license taxes	1,571,905
Construction excise taxes	272,672
Sales taxes	2,115,565
Total taxes	<u>7,801,905</u>
Grants and contributions, not restricted to specific programs	4,599,863
Interests on deposits	187,450
Miscellaneous	410,171
Total general revenues	<u>12,999,389</u>
Net changes in net position	(983,516)
Net position at beginning of the year, as restated	(27,283,551)
Net position at the end of the year	<u>\$ (28,267,067)</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Balance Sheet
Governmental Funds
June 30, 2015

	MAJOR FUNDS						Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Fund	Municipal Medical Center Fund	Capital Improvement Bonds Fund	Debt Service Fund	Other Non- major Fund	
ASSETS							
Cash in commercial banks	\$ 2,149,856	\$ 1,759	\$ 21,047	\$ -	\$ -	\$ 407,668	\$ 2,580,330
Cash in fiscal agent	46,468	-	-	2,984,390	5,134,353	186,607	8,351,818
Account receivable, net of doubtful accounts:							
Property taxes	-	-	-	-	148,294	-	148,294
Municipal license	13,163	-	-	-	-	-	13,163
Construction excise taxes	2,241	-	-	-	-	-	2,241
Sales tax	121,259	-	-	-	73,552	-	194,811
Interest	13,040	-	-	-	-	-	13,040
Other	1,200	-	82,070	-	-	15,170	98,440
Due from other funds	182,145	2,021,005	-	-	-	1,992	2,205,142
Due from governmental entities	211,058	-	322,494	-	-	43,700	577,252
Total assets	<u>\$ 2,740,430</u>	<u>\$ 2,022,764</u>	<u>\$ 425,611</u>	<u>\$ 2,984,390</u>	<u>\$ 5,356,199</u>	<u>\$ 655,137</u>	<u>\$ 14,184,531</u>
LIABILITIES							
Accounts payable	1,021,113	52,973	389,809	211,065	-	120,287	1,795,247
Intergovernmental	2,054,200	-	-	-	-	-	2,054,200
Due to other funds	2,021,573	-	-	6,410	-	177,159	2,205,142
Unearned revenue	1,322,776	-	-	-	-	196,123	1,518,899
Matured bonds due and payable	-	-	-	-	893,000	-	893,000
Matured interests due and payable	-	-	-	-	529,172	-	529,172
Total liabilities	<u>6,419,662</u>	<u>52,973</u>	<u>389,809</u>	<u>217,475</u>	<u>1,422,172</u>	<u>493,569</u>	<u>8,995,660</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue	211,058	-	-	-	-	-	211,058
Total deferred inflows of resources	<u>211,058</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211,058</u>
FUND BALANCE (DEFICIT)							
Fund Balance:							
Restricted	59,279	1,969,791	35,802	2,766,915	3,934,027	161,568	8,927,382
Unassigned	(3,949,569)	-	-	-	-	-	(3,949,569)
Total fund balances (deficit)	<u>(3,890,290)</u>	<u>1,969,791</u>	<u>35,802</u>	<u>2,766,915</u>	<u>3,934,027</u>	<u>161,568</u>	<u>4,977,813</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE (DEFICIT)	<u>\$ 2,740,430</u>	<u>\$ 2,022,764</u>	<u>\$ 425,611</u>	<u>\$ 2,984,390</u>	<u>\$ 5,356,199</u>	<u>\$ 655,137</u>	<u>\$ 14,184,531</u>

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2015

	MAJOR FUNDS						Total Governmental Funds
	General Fund	State Legislative Joint Resolutions Fund	Municipal Medical Center Fund	Capital Improvement Bonds Fund	Debt Service Fund	Other Non- major Funds	
REVENUES							
Taxes:							
Property taxes	\$ 2,188,465	\$ -	\$ -	\$ -	\$ 1,468,782	\$ -	\$ 3,657,247
Municipal license	1,571,905	-	-	-	-	-	1,571,905
Construction excise taxes	272,672	-	-	-	-	-	272,672
Sales tax	1,337,396	-	-	-	778,169	-	2,115,565
Charges of service	9,865	-	709,875	-	-	56,645	776,385
Intergovernmental grants and contributions:							
Federal government	-	-	-	-	-	1,191,319	1,191,319
State government	4,638,807	-	322,494	-	-	-	4,961,301
Investment earnings	183,015	8	286	-	4,074	67	187,450
Miscellaneous	278,074	-	97,985	-	-	34,123	410,182
Total Revenues	\$ 10,480,199	\$ 8	\$ 1,130,640	\$ -	\$ 2,251,025	\$ 1,282,154	\$ 15,144,026
EXPENDITURES							
Current:							
General government	4,943,178	-	-	-	-	-	4,943,178
Urban and economic development	3,447,417	297,973	-	1,550,909	-	476,289	5,772,588
Public safety	535,589	-	-	-	-	34,442	570,031
Health and Sanitation	392,988	-	2,373,162	-	-	-	2,766,150
Culture, recreation and education	133,476	-	-	-	-	459,933	593,409
Welfare and housing assistance	290,268	-	-	-	-	314,956	605,224
Debt service:							
Principal	-	-	-	-	942,000	-	942,000
Interest	-	-	-	-	1,088,956	-	1,088,956
Total Expenditures	9,742,916	297,973	2,373,162	1,550,909	2,030,956	1,285,620	17,281,536
Excess (Deficiency) of Revenues over expenditures	737,283	(297,965)	(1,242,522)	(1,550,909)	220,069	(3,466)	(2,137,510)
OTHER FINANCING SOURCES (USES)							
Transfer in from other funds	642,861	-	590,792	-	186,911	-	1,420,564
Transfer out to other funds	(777,703)	-	-	-	(642,861)	-	(1,420,564)
Proceeds from bond issuance	-	-	-	3,555,000	-	-	3,555,000
Total Other Financing Sources (uses)	(134,842)	-	590,792	3,555,000	(455,950)	-	3,555,000
NET CHANGE IN FUND BALANCES (DEFICITS)	602,441	(297,965)	(651,730)	2,004,091	(235,881)	(3,466)	1,417,490
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(4,492,731)	2,267,756	687,532	762,824	4,169,908	165,034	3,560,323
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (3,890,290)	\$ 1,969,791	\$ 35,802	\$ 2,766,915	\$ 3,934,027	\$ 161,568	\$ 4,977,813

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2015

Aggregate fund balance reported in the balance sheet - governmental funds	\$ 4,977,813
Governmental activities' amounts reported in the statement of net assets and the balance sheet - governmental funds are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the governmental funds	23,013,643
Deferred (unavailable) revenues in the governmental funds that are recorded as revenues in the statement of activities	211,058
Deferred outflows for pensions are reported in the statement of net position but are not reported in the governmental funds	1,058,006
Deferred inflows for pensions are reported in the statement of net position but are not reported in the governmental funds	(194,436)
The following liabilities are not due (mature) in the current period, therefore, are not reported in the governmental funds:	
Accrued employees' christmas bonus	(114,288)
Compensated absences	(1,144,793)
Bonds and notes payable	(25,495,500)
Net pension liability	(24,297,113)
Debt to intergovernmental agencies	(829,090)
Claims and Judgments	(162,767)
Landfill closure and postclosure care costs	<u>(5,289,600)</u>
Net position as reported in the accompanying statement of net position	<u>\$ (28,267,067)</u>

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

Commonwealth of Puerto Rico
Municipality of Santa Isabel
 Reconciliation of Statement of Revenues, Expenditures and Changes
 in Fund Balance - Governmental Funds to the Statements of Activities
 For the Year Ended June 30, 2015

Net change in fund balances- total governmental funds \$ 1,417,490

Governmental activities amounts reported in the statement of activities and the statement of Revenues, expenditures and changes in fund balances governmental funds are different because:

Revenues in the statement of activities that not provide current financial resources, therefore are not reported as revenues in the funds:

Net Change in CRIM Final Settlement Deferred in GFFS	184,516
Net Change in State Treasury Department Christmas Bonus Reimbursement Deferred in GFFS	(38,944)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognize for transactions that are not normally paid with expendable financial resources. In the Statements of Activities , however, wich is presented in the accrual basis, expenses and liabilities are presented regardless of when financial resources are available:

Net Change in Compensated Absences Liability	(61,961)
Net Change in Christmas Bonus	26,704
Net Change in claims and judgements	(162,767)
Other intergubernamental debts	34,495
Pension expenses	(1,393,404)

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expenses. This the amount by which capital outlays exceed depreciation expenses. 1,394,674

Repayment of principal of long-term obligation is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets 942,000

Retirement Contributions to defined benefit pension plans in the current fiscal year are not included on the Statement of Activities. 228,681

Proceeds on issuance of long- term debt (bonds) are recorded as other financing sources in the fund financial statements, but the issuances increase long-term liabilities in the statement of net assets (3,555,000)

Net changes in net position reported in the accompayning statements of activities \$ (983,516)

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

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies

The Municipality of Santa Isabel, Commonwealth of Puerto Rico (the Municipality), is a local municipal government constituted in 1841 in the Commonwealth of Puerto Rico. The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipal governments legally separated from the state government of the Commonwealth of Puerto Rico (the Commonwealth).

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental funds, and the aggregate remaining fund information of the Municipality at June 30, 2015, in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2015 in conformity with GAAP.

According to the financial reporting model established by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), the required basic financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (FFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Notes to Basic Financial Statements
June 30, 2015

RSI consists of: (1) a Management's Discussion and Analysis (MD&A) and (2) a budgetary comparison schedule – general fund. *RSI* is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements. *MD&A* is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

b) *Financial Reporting Entity*

A financial reporting entity consists of a primary government and its component units. Accordingly, for financial reporting purposes, the primary government is the Municipality of Santa Isabel. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61, the criteria used to determine whether organizations are to be included as component units within the Municipality's financial reporting entity are as follow:

- The organization is legally separate entity;
- The Municipality appoints a voting majority of the organization's board;
- There is a financial benefit/burden relationship between the Municipality and the organization or the Municipality can impose its will on the organization.

Organizations meeting the above criteria are required to be included in the Municipality's financial reporting entity as discretely presented component units. Entities which meet any of the following in addition to the above criteria are blended component units of the Municipality:

- The organization's governing body is substantively the same as the Municipality's governing body and (1) there is a financial benefit or burden relationship between the Municipality and the organization, or (2) management of the Municipality has operational responsibility for the organization;
- The organization provides services entirely, or almost entirely, to the Municipality, or otherwise exclusively, or almost exclusively, benefits the Municipality even though it does not provide services directly to it;
- The organization's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with Municipality resources.

Legally separate organizations that do not otherwise meet the criteria for inclusion as a component unit may be included in the financial reporting entity if it is determined that their

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exclusion would render the financial statements misleading. This determination is based on the nature and significance of the organization's relationship with the Municipality.

Based on the application of the criteria outlined above, the Municipality's management has concluded that, there are no legally separate entities or organizations that should be reported as component units of the Municipality as of June 30, 2015 nor for the year then ended.

c) *Government-Wide Financial Statements*

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements do not report fund information but rather report information of all of the Municipality's governmental activities. These statements are aimed at presenting a broad overview of the Municipality's finances through reporting its financial position and results of operations as a whole, using methods that are similar to those used by most private businesses.

The focus of the GWFS is not on compliance with budgets, regulatory requirements or on the use of available or currently expendable financial resources (referred to as fiscal accountability), but on operational accountability information about the Municipality as a single economic unit. Operational accountability is the Municipality's responsibility to report to the extent to which it has met its operating objectives efficiently and effectively, using all resources available for that purpose. It focuses on the Municipality's principal operating objective, which is to provide services to its citizens.

The accompanying statement of net position provides short-term and long-term information about the Municipality's financial position and condition by presenting all of the Municipality's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference between these items reported as "net position" (equity). This statement assists management in assessing the level of services that can be provided by the Municipality in the future, and its ability to meet its obligations as they become due. In addition, this statement reports the extent to which the Municipality has invested in capital assets, including infrastructure, and discloses legal and contractual restrictions on resources.

Net position are classified in the accompanying statement of net position within the following three categories:

- **Invested in capital assets, net of related debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

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- **Restricted net position** – These consist of net position restricted by external parties (such as creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation is defined as legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

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

- **Unrestricted net position** – These consist of net position that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, it is the Municipality's policy to generally use restricted resources first, and then unrestricted resources as they are needed.

The accompanying statement of activities presents the Municipality's results of operations by showing, how the Municipality's net position or liabilities changed during the fiscal year ended June 30, 2015, using a net (expense) revenue format. This statement presents the cost of each function/program as well as the extent to which each of the Municipality's functions, programs or other services either contributes to or draws from the Municipality's general revenues (such as property taxes, municipal license taxes, construction excise taxes, etc.).

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A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) general government, (2) urban and economic development, (3) public safety, (4) health and sanitation, (5) culture, recreation and education, and (6) welfare and housing assistance. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General Government:

- Municipal Legislature
- Mayor's Office
- Department of Finance
- Department of Human Resources
- Department of Municipal Secretary
- Department of Internal Audit

Urban and Economic Development:

- Department of Public Works

Public Safety:

- Department of Municipal Police
- Office of Emergency Management

Health and Sanitation:

- Department of Health

Culture, Recreation and Education:

- Department of Recreation and Sports

Welfare and Housing Assistance:

- Department of Elderly Affairs
- Department of Service to Citizen

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and (3) special items.

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program

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that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues. The accompanying statement of activities separately reports the following categories of program revenues:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

General revenues are the default category for revenues. It includes all revenues and gains that do not meet the definition of program revenues. Property taxes, municipal license taxes, construction excise taxes and sales and use taxes are reported as general revenues. All other nontax revenues (including unrestricted interest on deposits, grants and contributions not restricted for specific programs and miscellaneous revenues) that do not meet the definition of program revenues are classified as general revenues. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. All general revenues are reported net of estimated uncollectible amounts, which are recorded as reduction of revenues rather than as expenses.

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

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The Municipality classifies the most significant portion of its activities as governmental activities in the accompanying GWFS. These are activities generally financed through taxes, intergovernmental revenues and other non-exchange revenues that can be used to support the Municipality's programs or services. These governmental activities are also generally reported in the FFS.

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations or activities that are primarily financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges.

d) *Governmental Fund Financial Statements*

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds and (2) the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results operations of the Municipality's governmental funds by presenting sources, uses and balances of current financial resources. Some of these financial statements have a budgetary orientation and focus primarily on: (1) the Municipality's major funds, as defined below, (2) the fiscal accountability and (3) the individual parts of the Municipality's government. Fiscal accountability represents the Municipality's responsibility to justify that its actions in the current year have complied with public decisions concerning the raising and spending of public moneys in the short term (one fiscal year).

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- ***General fund*** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported 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) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- ***Special revenue funds*** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for the proceeds of specific

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revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- ***Debt service fund*** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for 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/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

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

- ***Capital projects funds*** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

The use of the capital projects funds has been reserved 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.

The focus of the FFS is on major governmental funds and fund types, which generally represent the Municipality's most important funds. Accordingly, the Municipality is required to segregate governmental funds and fund types between major and non-major categories within the FFS. Major individual governmental and proprietary funds and fund types are reported individually as separate columns in the FFS, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

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By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying governmental fund financial statements are: (1) the general fund, (2) the state legislative joint resolutions fund, (3) the municipal medical center fund, (4) the capital improvement bonds fund and (5) the debt service fund.

The State Legislative Joint Resolutions Fund is a major fund used to account for financial resources derived from capital and operating grants awarded each year by the Commonwealth's Senate and House of Representatives (the Commonwealth's Legislature). The purpose of the amounts awarded by the Commonwealth's Legislature vary from year to year, but are generally restricted to (1) partially subsidy certain qualifying administrative and operational activities of the Municipality, (2) provide specific multipurpose services to citizens and (3) finance the acquisition or construction of capital assets approved by the Commonwealth's Legislature.

The Municipal Medical Center Fund is a major special revenue fund used to account for financial resources derived from charge for medical services provided to citizens, and for state funds granted to cover medical facilities operational costs.

The Capital Improvement Bond Fund is a major capital projects fund used to account for proceeds of general obligation, public improvement or special obligation bonds. These proceeds are used for the acquisition, construction or improvement of major capital facilities and other assets.

The Debt Service Fund is used to account for the accumulation of recourses for and the payment of, general long-term debt principal, interest, and related cost.

The accompanying FFS are accompanied by other statements and schedules required by GAAP: (1) the reconciliation of the balance sheet – governmental funds to the statement of net position, and (2) the reconciliation of the statement of revenues, expenditures and changes in fund balances – governmental funds to the statement of activities.

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e) Measurement Focus and Basis of Accounting

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

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes (examples include certain charges for services and miscellaneous revenues, which are recorded as revenues when collected because they are generally not measurable until actually received).

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded using the criteria set forth by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33). GASB No. 33 established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, the Municipality gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. According to GASB No. 33, the Municipality groups its non-exchange transactions into the following four classes in the accompanying basic financial statements: (a) derived tax revenues, (b) imposed non-exchange revenues, (c) government mandated non-exchange transactions, and (d) voluntary non-exchange transactions.

In the case of derived tax revenue transactions, which result from assessments the Municipality places on exchange transactions, receivables and revenues are recorded when the underlying exchange has occurred.

In the case of imposed non-exchange revenue transactions (such as property taxes and municipal license taxes), which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen. Property taxes and municipal license are generally recorded as revenues (net of amounts considered not collectible) in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another

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government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as "expenditure-driven awards"), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. The Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.
- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

Voluntary non-exchange transactions (such as donations and certain grants and entitlements) result from legislative or contractual agreements, other than exchanges, willingly entered into by two or more parties. In these types of transactions, receivables and revenues are generally accounted for in the same manner as government-mandated non-exchange transactions discussed above. Events that are neither exchange nor non-exchange transactions are recorded when it is probable that a loss has been incurred and the amount of loss is reasonably estimable.

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

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

Governmental fund financial statements – The accompanying governmental fund financial statements are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances (deficits) – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter

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to pay liabilities of the current fiscal year. For this purpose, the Municipality considers most revenues to be available if collected generally within 90 days after June 30, 2015, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as earned and unavailable revenues at June 30, 2015.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as earned and unavailable revenues.

In a manner similar to the GWFS, but subject to and limited by the availability criteria discussed previously, all revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are also generally recorded when the exchange takes place. Accordingly, certain charges for services and miscellaneous revenues are recorded as revenues when collected because they are generally not measurable until actually received.

All revenues, expenses, gains, losses and assets resulting from non-exchange transactions are recorded in a similar manner to the GWFS, using the previously discussed criteria set forth by GASB No. 33 for non-exchange transactions, but subject to and limited by the availability criteria discussed above. Accordingly, property tax and municipal license tax receivables are also generally recorded in the fiscal year when an enforceable legal claim has arisen while property tax and municipal license tax revenues (net of amounts considered not collectible) are also generally recorded in the fiscal year when resources are required to be used or the first fiscal year that the use of the resources is permitted. Receivables and revenues from federal and state grants and contributions, donations and entitlements are also generally recorded when all eligibility requirements imposed by the provider have been met (generally, as qualifying reimbursable expenditures are incurred for expenditure-driven grants). Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

Pursuant to the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* (GASBI No. 6), in the absence of an explicit requirement (i.e., the absence of an applicable modification, discussed below) the Municipality generally accrues a governmental fund liability and an expenditure (including salaries, professional services, supplies, utilities, etc.) in the period in which the government incurs the liability, to the extent that these liabilities are normally expected to be liquidated with current available financial resources. GASBI No. 6 modified the recognition criteria for certain expenditures and liabilities reported under the modified accrual basis of accounting prior to GASB No. 34, and clarified a number of situations in which the Municipality should distinguish between governmental fund liabilities and general long-term liabilities. Therefore, the accompanying balance sheet – governmental funds generally reflects assets that will be converted into cash to satisfy current liabilities. Long-term assets (except for accounts receivables and inter-fund advances) and those assets that will not be converted into

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cash to satisfy current liabilities are generally not accounted for in the accompanying balance sheet – governmental funds. At the same time, long-term liabilities (generally, those unmatured that will not require the use of current financial resources to pay them) are not accounted for in the accompanying balance sheet – governmental funds.

Modifications to the accrual basis of accounting in accordance with GASBI No. 6 include:

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2015, which have been recorded as governmental fund liabilities at June 30, 2015, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

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

Under the financial reporting model established by GASB No. 34, all general capital assets and the unmatured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying statement of net position since July 1, 2003.

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f) Stewardship, Compliance and Accountability

Budgetary Control

According to Law No. 81, the Mayor and its Administrative Cabinet prepare annual budgets each fiscal year for the Municipality's general fund. Such legally adopted budgets are based on expected expenditures by program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting, and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for each fiscal year commencing on July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than the immediately preceding May 31. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before the immediately preceding June 15.

The Municipal Legislature has 10 business days, up to the immediately preceding June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within six (6) days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to eight (8) days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have three (3) days to sign and approve it.

If the budgets are not adopted prior to the end of the deadlines referred to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This regulation permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budgets may be updated for any estimate revisions as well as fiscal year-end encumbrances, and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature.

The Municipality's Department of Finance has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus

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encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the function/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare) within a fund.

Under the laws and regulations of the Commonwealth, the appropriations made for any fiscal year shall not exceed the total revenue, including available surplus, estimated for said fiscal year unless the imposition of taxes sufficient to cover said appropriations is provided.

Budgetary Accounting

The Municipality's annual budgets are prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP.

According to the budgetary basis of accounting, revenue is generally recorded when cash is received. Short-term and long-term borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects 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 accompanying budgetary comparison schedule – general fund provide information about the general fund original budget, its amendments, and the actual results of operations of such major governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in

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conformity with GAAP, a reconciliation of the differences between the general fund budgetary bases and GAAP actual amounts is presented at the bottom of the budgetary comparison schedule.

g) Deposits

The Municipality's deposits are composed of cash on hand, demand deposits and cash equivalents in: (1) commercial banks, (2) the Government Development Bank for Puerto Rico (GDB), a governmental bank and a major component unit of the Commonwealth, who is statutorily designated as fiscal agent of the Municipality, and (3) the Municipal Revenue Collection Center (CRIM, by its Spanish acronyms), a governmental entity responsible for the imposition and collection of property taxes on behalf of all municipalities of Puerto Rico.

The Municipality follows the practice of pooling cash. The balance in the pooled cash account is available to meet current operating requirements. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the federal depository insurance generally provided by the Federal Deposits Insurance Corporation (FDIC). All securities pledged as collateral are held by agents designated by the Secretary of the Treasury of the Commonwealth, but not in the Municipality's name.

Assets include cash and cash equivalents in commercial banks, GDB and CRIM. Part of these cash balances use is limited for the specified purposes discussed below, which are established by applicable agreements or required by law.

Cash with fiscal agent in the general and debt service funds represent property tax collections which are retained and restricted for the payment of the Municipality's debt service, as established by law. Cash in fiscal agent in capital improvement bonds and other governmental funds consists of unspent proceeds of bonds and notes, and the balance of interest and noninterest bearing accounts which are restricted for: (1) the acquisition, construction or improvement of major capital assets and the operations of federal and state funded programs.

h) Unrestricted and Restricted Accounts Receivable

Accounts receivable consist of all revenues earned but not collected at June 30, 2015. These accounts receivables are stated net of estimated reserved for doubtful accounts, which are determined based upon past collection experience, historical trends, current economic conditions and the periodic aging of accounts receivable.

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

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account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

i) Capital Assets

Capital assets used in governmental activities include land and land improvements, buildings, structures and building improvements, machinery and equipment (including equipment held under capital leases), furniture and fixtures, licensed vehicles, construction in progress, and infrastructure. These assets are capitalized and reported in the accompanying statement of net position. Infrastructure assets are generally stationary in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost basis of \$100 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under \$100 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities and the statement of revenues, expenses and changes in fund net position. In the governmental funds, all capital assets are recorded as expenditures in the corresponding function/program identified with the asset.

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a portion of the infrastructure constructed or acquired prior to June 30, 2003 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2003 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

Major outlays for capital assets and improvements are capitalized in the statement of net position as projects are constructed. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

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Depreciation and amortization expense is recorded only in the government-wide statement of activities. However, there is no depreciation or amortization recorded for land and construction in progress. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for machinery and equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. The estimated useful lives of major capital asset categories are:

	<u>Years</u>
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	20 to 50
Licensed vehicles	8
Furniture and fixtures	5 to 20
Machinery and equipment, excluding those held under capital leases	5 to 20

Depreciation and amortization expense on capital assets are recorded as direct expenses of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

i) Unearned Revenues

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as “*unearned revenue*” in the accompanying statement of net position).

j) Deferred Outflow/Inflow of Resources

In addition to assets, the statement of net position - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund 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 or fund balance that applies to a future period (s) and so will not be recognized as an

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outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources.

In addition to liabilities, the statement of net position - governmental and business-type activities and, the governmental funds balance sheet and the statement of net position – proprietary fund 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 or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item “*earned and unavailable revenue*” is reported only in the governmental funds balance sheet.

The governmental funds reports unavailable revenues from intergovernmental grants and contributions. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources of major governmental funds are identified below:

	General fund	Total governmental funds	Statement of net position
<i>Measurable and unavailable revenues:</i>			
Intergovernmental grants and contributions	\$ 211,058	\$ 211,058	\$ -
Total measurable and unavailable revenue	\$ 211,058	\$ 211,058	\$ -

k) Compensated Absences

The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer’s share of social security taxes and medicare taxes).

The vacation policy of the Municipality provides for the accumulation of regular vacations at a rate of 2.5 days per month (30 days per fiscal year) per employee. Employees accumulate regular sick leave at a rate of 1.5 days per month (18 days per fiscal year). Employees accumulate compensatory time at a rate of 1.5 times the overtime worked. All vacation and sick leave days accumulated by employees in excess of 30 days and 90 days, respectively, are paid to employees each fiscal year, if not consumed, as required by law. In the case of compensatory time, the excess of 240 hours is paid to employees each fiscal year, if not consumed.

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Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment before reaching 10 years of services, such regular sick leave is not paid to the employee, if not consumed. In addition upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed previously. After 10 years of services, any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employee at any time.

The liability for compensated absences is in the statement of net position. A liability for compensated absences is reported in the governmental fund financial statements only when matured (when payment is due), for example, as a result of employee resignations or retirements.

l) Long-term Debt

The long-term liabilities reported in the accompanying statements of net position include the Municipality's bonds payable, notes payable, obligations under capital leases, accrued compensated absences and accrued legal claims and judgments.

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. In the governmental fund financial statements, the face amount of debt issued (gross debt proceeds) is reported as other financing sources when issued.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes.

m) Accounting for Pension Costs

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

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

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

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

n) Risk Management

The Municipality carries commercial insurance covering casualty, theft, tort claims and other losses. Insurance policies are negotiated by the Commonwealth's Department of Treasury (the Department of Treasury) on behalf of all municipalities of Puerto Rico. The Department of Treasury pays the insurance premiums on behalf of the Municipality and then is reimbursed each fiscal year through monthly equal payments deducted from the Municipality's gross property tax collections made by the Municipal Revenue Collection Center ("CRIM", by its Spanish acronym), a governmental entity responsible for billing and collecting property taxes on behalf of all municipalities of Puerto Rico.

The Municipality carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA, by its Spanish acronym), a component unit of the Commonwealth. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium applicable at June 30, 2015 is \$35 per licensed motor vehicle, which is paid directly to ACAA.

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. 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. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the

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Commonwealth's 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 because of illness suffered as a consequence of their employment. Unemployment compensation, non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

The Municipality also obtains medical insurance coverage from a health insurance company for its employees. Different health insurance coverage and premium options are negotiated each year by the Municipality. The current insurance policies have not been cancelled or terminated at June 30, 2015. Premiums are paid on a monthly basis directly to the insurance company. In the past three years, the Municipality has not settled claims that exceeded insurance coverage.

o) Fund Balances

On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions No. 54* (GASB No. 54). GASB No. 54, which enhanced the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. Also, this statement establishes fund balance classifications that comprise a hierarchy upon use of the resources reported in governmental funds.

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

- ***Nonspendable*** – Represent resources that cannot be spent due to form, for example, inventories and prepaid amounts. Also, long-term loan and note receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned. Amounts that must be maintained intact legally or contractually (corpus or principal of a permanent fund).
- ***Restricted*** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditor or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** – Represent resources used for specific purposes, imposed by formal action of the Municipal's highest level of decision making authority (Municipal Legislature through resolutions and ordinances) and can only be changed by a similar law, ordinance or resolution, no later than the end of fiscal year.

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- **Assigned** – Represent resources intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Law No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- **Unassigned** – Represent the residual classification for the Municipality’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts is restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

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

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

p) Interfund Activities

The Municipality has the following types of reciprocal and non-reciprocal inter-fund activities recorded among governmental funds in the accompanying GFFS:

- **Inter-fund loans** – Represent resources (assets) provided by one governmental fund to other governmental fund with a requirement and commitment for repayment (reimbursement), which are recorded as “*due from*” in the lender governmental fund and “*due to*” in the borrower governmental fund. For amounts not expected to be collected, inter-fund receivables/payables are reduced to their estimated realizable (settlement) value, and the portion of the inter-fund loan that is not expected to be repaid is reported as a “*transfer-in*” from the governmental fund that provided the loan.

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- ***Inter-fund transfers (transfers-in/(out))*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as “*other financing uses*” in the governmental fund making transfers and as “*other financing sources*” in the governmental fund receiving transfers.
- ***Inter-fund reimbursements*** – Represent repayments (reimbursements) from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

In the GFFS, inter-fund activity has not been eliminated, as permitted by GAAP.

q) Use of Estimates

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

r) Future Adoption of Accounting Pronouncements

The GASB has issued the following standards that have effective dates after June 30, 2015:

- GASB Statement No. 72 Fair Value Measurement and Application (Issued 2/15). The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.
- GASB Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (Issued 06/15). The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of

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Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

- GASB Statement No. 74 Financial Reporting for Postemployment Benefit Plans other than Pension Plans (Issued 06/15). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
- GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Issued 06/15). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 76 The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (Issued 06/15). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.
- GASB Statement No. 77 Tax Abatement Disclosures (Issued 08/15). The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans (Issued 12/15). The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 79 Certain External Investment Pools and Pool Participants (Issued 12/15). This Statement addresses accounting and financial reporting for certain external

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investment pools and pool participants. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

- GASB Statement No. 80 Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (Issued 01/16). The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.
- GASB Statement No. 81, Irrevocable Split-Interest Agreements (Issued 03/16). The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.
- GASB Statement No. 82, Pension Issues- an Amendment of GASB Statements No 67, No. 68, and No. 73 (Issued 03/16). The objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The requirements of this Statement are effective for periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

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

2. Deposits

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

On July 1, 2004, 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

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Municipality has adopted, as its custodial credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit, 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 is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Any investment maintained in GDB are exempt from the collateral requirement established by the Commonwealth and thus represent a credit risk, because in the event that GDB fail, the Municipality may not be able to recover these investments.

- **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 investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low.
- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*, the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to \$8,351,818 at June 30, 2015, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. Deposits maintained in GDB are exempt from the collateral requirement established by the Commonwealth and thus represent a custodial credit risk, because in the event that GDB fail, the Municipality may not be able to recover these deposits.
- **Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

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The Municipality's bank balance of deposits with financial institutions is categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2015. Risk categories are described as follows:

	General fund	Legislative joint resolutions Fund	Municipal medical center fund	Capital improvement bond fund	Debt service fund	Other nonmajor fund	Total governmental funds
Cash in commercial banks	\$ 2,149,856	\$ 1,759	\$ 21,047	\$ -	\$ -	\$ 407,668	\$ 2,580,330
Cash in GDB, as fiscal agent	46,468	-	-	2,984,390	5,134,353	186,607	8,351,818
Total carrying amount of deposits	<u>\$ 2,196,324</u>	<u>\$ 1,759</u>	<u>\$ 21,047</u>	<u>\$ 2,984,390</u>	<u>\$ 5,134,353</u>	<u>\$ 594,275</u>	<u>\$ 10,932,148</u>

3. Municipal License Taxes

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Santa Isabel. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.30% for other types of taxpayers. Any taxpayers that have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future period) are recorded as unearned revenues. Unearned municipal license tax revenues recorded in the accompanying GWFS and GFFS amounted to \$1,322,776 at June 30, 2015, which represents municipal licenses collected in advance for the taxable year 2015-2016.

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4. Sales Taxes

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

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

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

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

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

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

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and

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creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

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

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

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

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

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

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

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the Municipality of Santa Isabel,

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the implementation date was February 1, 2015. For the fiscal year ended on June 30, 2015, the Municipality's total 1% sales and use tax advances amounted \$489,069.

5. Property Taxes

The Municipality is authorized by Law No. 81 to impose and collect property taxes from any natural or legal person that, at January 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of \$15,000 (at 1957 estimated market prices).

The Municipal Revenue Collection Center (CRIM, by its Spanish acronym) is a governmental entity not related to the Municipality which is responsible for the billings and collections of real and personal property taxes on behalf of the Municipality and all other municipalities in the Commonwealth of Puerto Rico. Prior to the beginning of each fiscal year, CRIM informs to the Municipality the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the fiscal year, CRIM advances funds (estimated collections) to the Municipality based on the initial estimated (forecasted) collection amounts for the fiscal year. 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 the property tax amounts actually collected from taxpayers on behalf of the Municipality during the fiscal year. This settlement has to be completed on a final basis not later than December 31 following the fiscal year end.

If in any given fiscal year, CRIM remits to the Municipality property tax advances that are less than the property taxes actually collected by CRIM on behalf of the Municipality, then CRIM will increase the amount of the monthly property tax advances during for the next fiscal year. However, if advances exceed the amount actually collected by CRIM, then CRIM will reduce the amount of the monthly property tax advances during the next fiscal year.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 8.53 percent (of which taxpayers pay 8.33 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy).

Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property, deflated to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 10.53 percent (of which 10.33 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy).

Residential real property occupied by its owner (not engaged in trade or business) is exempt from property taxes only on the first \$15,000 of the assessed value (at 1957 market prices). For exempt amounts, the Department of Treasury assumes the payment of the basic tax (4.00 percent and 6.00 percent for personal and real property, respectively), except for property assessed for less than \$3,500 (at 1957 market prices), for which no payment is made by the Department of Treasury.

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According to Law No. 81, included within the total personal and real property tax rates of 8.53 percent and 10.53 percent, respectively, there is a levy of an annual special tax of 1.03 percent of the assessed value of all real and personal property not exonerated from taxation. This special tax is levied by the Commonwealth of Puerto Rico but is collected by CRIM. Collections of this special tax are directly remitted by CRIM to the debt service fund of the Commonwealth of Puerto Rico, for the payment of the general long-term debt of the state government.

In addition, included within the total personal and real property tax rates of 8.53 percent and 10.53 percent, respectively, there is a portion of the tax rate in the amount of 1.75 percent that is restricted for the Municipality's debt service requirements of bonds. Such amounts are recorded in the Municipality's debt service fund.

The portion of the property taxes recorded in the general fund is used to finance the operating activities of the Municipality, including the payment of: (1) the insurance premiums acquired through the Puerto Rico Department of Treasury, (2) the monthly contributions to CRIM, which are statutorily required as the Municipality's share of CRIM's operating expenses, (3) statutory contributions to the Puerto Rico Health Services Administration (PRHSA), as the Municipality's share of the cost of the public health insurance coverage provided to qualifying low-income citizens, (4) certain notes payable to CRIM and to the Puerto Rico Department of Treasury and, (5) certain amounts due to certain agencies and component units of the Commonwealth, which are recorded within intergovernmental payables in the accompanying GWFS and GFFS.

The 0.20 percent of unrestricted personal and real property taxes paid by the Puerto Rico Department of Treasury as a subsidy is recorded in the Municipality's general fund.

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

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

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At June 30, 2015, property taxes receivable recorded in the debt service fund amounted to \$148,294.

6. Accounts Payable and Accrued Liabilities

The composition of accounts payable and accrued liabilities balances at June 30, 2015 and for the fiscal year then ended is as follows:

Descriptions:	Major governmental funds					Total governmental funds
	General fund	State legislative joint resolutions fund	Municipal medical center fund	Capital improvement bond fund	Other nonmajor funds	
Accounts payable	\$ 990,156	52,973	389,809	211,065	120,287	\$ 1,764,290
Accrued liabilities	30,957	-	-	-	-	30,957
Total	<u>\$ 1,021,113</u>	<u>52,973</u>	<u>389,809</u>	<u>211,065</u>	<u>120,287</u>	<u>\$ 1,795,247</u>

7. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows:

	General Fund	Other governmental funds	Total governmental funds	Statement of net position
<i>Intergovernmental receivables:</i>				
Grants and contributions:				
Puerto Rico Treasury Department	\$ 26,542	\$ -	\$ 26,542	\$ 26,542
Municipal Revenue Collection Center	184,516	-	184,516	184,516
Puerto Rico Department of Health	-	322,494	322,494	322,494
Puerto Rico Office of the Commissioner of Municipal Affairs	-	31,671	31,671	31,671
Puerto Rico Department of Education	-	10,237	10,237	10,237
Administration for Integral Care and Development of Children of the Commonwealth of Puerto Rico	-	1,792	1,792	1,792
Total intergovernmental receivables	<u>\$ 211,058</u>	<u>\$ 366,194</u>	<u>\$ 577,252</u>	<u>\$ 577,252</u>
<i>Intergovernmental payables:</i>				
Puerto Rico Treasury Department	\$ 146,725	\$ -	\$ 146,725	\$ 146,725
Employees Retirement System of the Government of the Commonwealth of Puerto Rico	44,777	-	44,777	44,777
Puerto Rico Department of Labor	911,991	-	911,991	911,991
Puerto Rico Aqueduct and Sewer Authority	894,637	-	894,637	894,637
Puerto Rico Energy Power Authority	22,679	-	22,679	22,679
Social Security Administration	21,065	-	21,065	21,065
Puerto Rico General Services Administration	2,180	-	2,180	2,180
Commonwealth of Puerto Rico Employees Association	10,146	-	10,146	10,146
Total intergovernmental payables	<u>\$ 2,054,200</u>	<u>\$ -</u>	<u>\$ 2,054,200</u>	<u>\$ 2,054,200</u>

Intergovernmental receivables and payables represent the pending settlements of the aforementioned intergovernmental transactions.

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The amount due from Puerto Rico Department of Treasury (\$26,542) and the amount due from Municipal Revenue Collection Center (\$184,516) are recorded as unavailable revenues in the governmental funds statements (general fund) since is not available as required by modified accrual basis of accounting.

8. Interfund Balances

The composition of inter-fund balances at June 30, 2015 and for the fiscal year then ended is as follows::

	Due from:			
Due to:	General fund	State legislative joint resolutions fund	Other governmental funds	Total governmental funds
Major governmental funds:				
General fund	\$ -	2,021,005	568	\$ 2,021,573
Capital improvement bonds fund	6,410	-	-	6,410
Non-major governmental funds:	175,735	-	1,424	177,159
Total	\$ 182,145	2,021,005	1,992	\$ 2,205,142
Transfers in:	Transfers out:			Total governmental funds
Major governmental funds:	General fund	Debt service fund		
General fund	\$ -	\$ 642,861	\$ 642,861	
Debt service fund	186,911	-	186,911	
Municipal medical center fund	590,792	-	590,792	
Total	\$ 777,703	\$ 642,861	\$ 1,420,564	

The principal purposes of inter-fund receivables and payables are to recognize the outstanding balance of the loans granted, the effect of the practice of pooling cash in the a current account, and to temporarily cover the payroll and other operating costs of several federally, and local and state funded programs.

The principal purposes of inter-fund transfers are to:

- Make a routinely transfer of resources from the general fund to the debt service fund to cover the principal and interest payment on certain bond. These debt service payments were made on January and July 2015.
- Make a non-routinely transfer of resources from the general fund to the municipal medical center fund to cover operational costs.

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- Make a non-routinely transfer of resources (deb service fund unassigned fund balance surplus) from the debt service fund to the general fund to amortize the accumulated deficit.

Inter-fund receivables and payables represent the pending settlements of the aforementioned transfers at June 30, 2015.

9. Unearned Revenues

At June 30, 2015, unearned revenues recorded in the liabilities section of the GWFS and the governmental fund financial statements are as follows:

	<u>General fund</u>	<u>Nonmajor funds</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Unearned revenues:</i>				
Municipal licenses	\$ 1,322,776	-	1,322,776	\$ 1,322,776
Intergovernmental grants and contributions	-	196,123	196,123	196,123
Total unearned revenues	<u>\$ 1,322,776</u>	<u>196,123</u>	<u>1,518,899</u>	<u>\$ 1,518,899</u>

10. Deferred Outflow/Inflow of Resources

At June 30, 2015, measurable and unavailable revenues recorded in the GWFS and the governmental fund financial statements are as follows:

	<u>General Fund</u>	<u>Total governmental funds</u>	<u>Statement of net position</u>
<i>Earned and unavailable revenues:</i>			
Intergovernmental grants and contributions	\$ 211,058	\$ 211,058	-
Total unavailable revenues	<u>\$ 211,058</u>	<u>\$ 211,058</u>	<u>-</u>

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11. Capital Assets

Capital assets activity of the governmental activities for the fiscal year ended June 30, 2015 was as follow:

	Cost basis at beginning of fiscal year	Additions	Reductions/ Reclassifications	Cost basis at end of fiscal year
<i>Cost basis:</i>				
Capital assets, not being depreciated:				
Land	\$ 1,433,191	\$ -	\$ -	\$ 1,433,191
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,433,191</u>	<u>-</u>	<u>-</u>	<u>1,433,191</u>
Capital assets, being depreciated:				
Buildings, structures and buildings improvements	20,387,039	2,306,959	-	22,693,998
Infrastructure	5,283,512	-	-	5,283,512
Land improvements	62,800	-	-	62,800
Licensed vehicles	3,068,746	-	-	3,068,746
Machinery and equipment	2,123,839	87,235	-	2,211,074
Total capital assets, being depreciated	<u>30,925,936</u>	<u>2,394,194</u>	<u>-</u>	<u>33,320,130</u>
Total cost basis of capital assets	<u>\$ 32,359,127</u>	<u>\$ 2,394,194</u>	<u>\$ -</u>	<u>\$ 34,753,321</u>
	Accumulated Depreciation at beginning of fiscal year	Additions	Reductions/ Reclassifications	Accumulated Depreciation at end of fiscal year
Accumulated depreciation:				
Buildings, structures and buildings improvements	\$ 4,558,047	\$ 458,451	\$ -	\$ 5,016,498
Infrastructure	2,396,085	185,849	-	2,581,934
Land improvements	11,490	1,130	-	12,620
Licensed vehicles	2,460,491	178,100	-	2,638,591
Machinery and equipment	1,314,045	175,990	-	1,490,035
Total accumulated depreciation	<u>10,740,158</u>	<u>999,520</u>	<u>-</u>	<u>11,739,678</u>
Net capital assets, governmental activities	<u>\$ 21,618,969</u>	<u>\$ 1,394,674</u>	<u>\$ -</u>	<u>\$ 23,013,643</u>

The Municipality did not have complete and accurate accounting records of capital assets at June 30, 2015.

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Depreciation and amortization expense of governmental activities for the fiscal year ended June 30, 2015 was charged to functions/programs in the accompanying statement of activities as follows:

General government	\$ 179,289
Public safety	84,092
Welfare and housing assistance	8,692
Culture, recreation, and education	244,279
Health and sanitation	6,510
Urban and economic development	476,658
Total depreciation and amortization expense	<u>\$ 999,520</u>

12. Long-Term Obligations

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

	Balance at June 30, 2014 (as restated)	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2015	Due Within One Year
Bonds and bond anticipation notes payables	\$ 23,639,500	\$ 3,555,000	\$ 806,000	\$ 26,388,500	\$ 944,000
Notes payable to:					
CRIM:					
Advances over collections through fiscal year 2000	450,424	-	13,558	436,866	14,410
Act No.146 -Financing of delinquent property tax accounts sold	376,865	-	20,937	355,928	20,937
Final Settlement – Fiscal Year 2013-2014	36,296	-	-	36,296	36,296
Compensated absences	1,082,832	603,254	541,293	1,144,793	550,000
Claims and judgments	-	162,767	-	162,767	162,767
Estimated landfill closure and post closure care costs	5,289,600	-	-	5,289,600	706,663
Christmas bonus	140,992	114,288	140,992	114,288	114,288
Net pension liability	22,268,820	2,028,293	-	24,297,113	-
Total	<u>\$ 53,285,329</u>	<u>\$ 6,463,602</u>	<u>\$ 1,522,780</u>	<u>\$ 58,226,151</u>	<u>\$ 2,549,361</u>

Historically, the general fund has been used to liquidate the notes payable to CRIM, the Puerto Rico Department of Treasury, compensated absences and any other long-term liabilities other than bonds.

o) Debt Limitation

The Municipal Legislature is legally authorized to approve the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth of Puerto Rico also provide that:

- Direct obligations of the Municipality (evidenced principally by bonds) are backed by the full faith, credit and taxing power of the Municipality; and

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- Direct obligations are not to be issued by the Municipality if the amount of the principal of, and the interest on, such bonds and bond anticipation notes (and on all bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or bond anticipation notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the property located within the Municipality plus the balance of the ad valorem taxes in the debt service fund, for bonds payable and bond anticipation notes to be repaid with the proceeds of property taxes restricted for debt service.

p) Bonds Payable

The Municipality issues general obligation and public improvement serial bonds to finance the acquisition, construction and improvement of capital assets, as well as, to finance certain operating needs, including the payment to suppliers in certain circumstances.

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

As more fully described in Note 5, the Municipality levies an annual additional special property tax of 1.75 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at the Government Development Bank for Puerto Rico, fiscal agent, whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual and semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

As more fully described in Note 4, the Municipality impose a sales and uses taxes of one (1) percent, which are deposited in COFIM to guarantee the payment of long-term bonds. 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 the Municipality.

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

<u>General and Special Obligations:</u>	<u>Outstanding Amount</u>
\$1,850,000 rent bond series of 2003 payable in annual installments ranging from \$30,000 to \$140,000 through July 2027, interest ranging 1.48% to 6.50%	\$ 1,300,000
\$730,000 rent bond series of 2003 payable in annual installments ranging from \$10,000 to \$55,000 through July 2027, interest ranging 1.48% to 6.50%	515,000
\$33,000 rent bond series of 1994 payable in annual installments ranging from	6,000

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<u>General and Special Obligations:</u>	<u>Outstanding Amount</u>
\$1,000 to \$2,000 through January 2018, interest at 4.5%	
\$205,000 rent bond series of 1997 payable in annual installments ranging from \$5,000 to \$20,000 through July 2022, interest ranging 4.87% to 6.56%	110,000
\$215,000 rent bond series of 1994 payable in annual installments ranging from \$5,000 to \$15,000 through January 2018, interest at 4.5%	42,000
\$361,000 rent bond series of 2003 payable in annual installments ranging from \$9,000 to \$25,000 through January 2016, interest at 5.0%	25,000
\$230,000 rent bond series of 2003 payable in annual installments ranging from \$9,000 to \$22,500 through July 2019, interest ranging 4.50% to 6.00%	100,500
\$630,000 general obligations bonds series of 1997 payable in semi annual installments ranging of \$10,000 to \$60,000 through July 2020, interest from 4.7% to 6.63%	280,000
\$755,000 general obligation bonds series of 2001 payable in semi annual installments ranging of \$5,000 to \$65,000 through July 2025, interest ranging from 1.23% to 6.5%	500,000
\$185,000 general obligation bonds series 2004 payable in semi annual installments ranging from \$5,000 to \$ 15,000 through July 2028, interest ranging 1.48% to 6.5%	130,000
\$185,000 general obligation bonds series 2004 payable in semi annual installments ranging from \$5,000 to \$ 15,000 through July 2028, interest ranging 1.48% to 6.0%	130,000
\$300,000 general obligation bond series of 2001 payable in annual installments ranging of \$7,000 to \$21,000 through January 2029, interest at 4.75%	209,000
\$1,410,000 general obligation bond series of 2006 payable in annual installments ranging of \$40,000 to \$115,000 through July 2025, interest ranging 1.48% to 5.5%	955,000
\$2,690,000 general obligation bond series of 2007 payable in annual installments ranging of \$40,000 to \$225,000 through July 2031, interest ranging 1.48% to 6.5%	2,275,000

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<u>General and Special Obligations:</u>	<u>Outstanding Amount</u>
\$745,000 general obligation bond series of 2008 payable in annual installments ranging of \$20,000 to \$70,000 through July 2027, interest ranging 1.48% to 6.5%	590,000
\$5,356,000,000 general obligation bond series of 2008 payable in annual installments ranging of \$85,000 to \$456,000 through July 2032, interest ranging 1.48% to 7.00%	4,741,000
\$810,000 general obligation bond series of 2010 payable in annual installments ranging of \$5,000 to \$70,000 through July 2034, interest ranging 4.75% to 6.50%	750,000
\$6,500,000 general obligation bond series of 2010 payable in annual installments ranging of \$60,000 to \$915,000 through July 2034, interest ranging 6.00% to 7.00%	6,200,000
\$2,720,000 special obligation bond series of 2010 payable in annual installments ranging of \$40,000 to \$220,000 through July 2035, interest ranging 6.00% to 7.00%	2,530,000
\$1,255,000 general obligation bond series of 2013 payable in annual installments ranging of \$145,000 to \$220,000 through July 2019, interest ranging 6.00% to 7.50%	955,000
\$505,000 general obligation bond series of 2013 payable in annual installments ranging of \$5,000 to \$40,000 through July 2037, interest ranging 6.00% to 7.50%	490,000
\$3,555,000 general obligation bond series of 2014 payable in annual installments ranging of \$80,000 to \$315,000 through July 2034, interest ranging 6.00% to 7.00%	3,555,000
Total bonds	<u><u>\$ 26,388,500</u></u>

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

Fiscal year ending June 30,	Principal	Interest
2016	\$ 944,000	\$ 1,149,163
2017	991,000	1,628,690
2018	1,054,000	1,583,268
2019	1,098,000	1,528,388
2020	1,190,500	1,453,416
2021-2025	5,480,000	6,299,997
2026-2030	7,190,000	4,193,803
2031-2035	8,101,000	1,512,375
2036-2040	340,000	21,950
Totals	\$ 26,388,500	\$ 19,371,049

c) Notes Payable to CRIM

Act No. 42 – Act No. 42 of January 26, 2000 was enacted to authorize CRIM to enter into a financing agreement of up to \$200 million, for a term not exceeding 30 years. The financing agreement allows for the financing of a debt that the municipalities of Puerto Rico have with CRIM, arising from the final settlements of property tax advances versus actual collections through fiscal year 2000. The amounts that the municipalities will collect from the additional property taxes resulting from the increases in the subsidy from the Commonwealth to the municipalities are assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law No. 238 of August 15, 1999.

In addition, on February 12, 2003, the Municipality entered into a repayment agreement with GDB and CRIM to pay off the remaining \$559,133 of excess of property tax advances through fiscal year 2000 and 2001. CRIM retains the principal and interest from the property tax advances of the Municipality. The amounts retained by CRIM are remitted to GDB on July 1 of each year through July 1, 2032. The repayment agreement bears interest at variable rates determined by GDB. The outstanding principal balances of the note payable to CRIM amounted \$436,866, at June 30, 2015. The principal and interest maturities are as follows:

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Fiscal year ending June 30,	Principal	Interest
2016	\$ 14,410	\$ 26,811
2017	15,315	25,906
2018	16,278	24,944
2019	17,300	23,921
2020	18,388	22,834
2021-2025	110,787	95,318
2026-2030	150,250	55,856
2031-2035	94,138	8,913
Totals	\$ 436,866	\$ 284,503

Financing of delinquent property tax accounts sold – On April 22, 2002, the Municipality entered into a financing agreement with CRIM in the amount of \$688,000 for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interests 125 points over LIBOR rate during the next 25 years. At June 30, 2015, the outstanding principal balances amounted to \$355,928. The principal and interest maturities are as follows:

Fiscal year ending June 30,	Principal	Interest
2016	\$ 20,937	\$ 22,138
2017	20,937	20,836
2018	20,937	19,534
2019	20,937	18,232
2020	20,937	16,930
2021-2025	104,685	65,114
2026-2030	104,685	32,558
2031-2035	41,873	3,906
Totals	\$ 355,928	\$ 199,248

Fiscal Year 2013-2014 Settlement Statement – On December 31, 2014, CRIM, as required by law, prepared the final settlement for the fiscal year 2013-2014, whereby a comparison was made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. According to the final settlement, advances to the Municipality exceeded the amount actually collected by the CRIM, and therefore, according to law, a payable to the CRIM amounted to \$36,296 should be recorded in the GWFS.

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d) Compensated Absences

At June 30, 2015, the government-wide statement of net position – governmental activities includes a liability amounting \$1,144,793, of which \$698,749 represents accrued sick leave benefits, and \$446,044 represents accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

13. Employees Retirement System

a) General Information about the Retirement Plan

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

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

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

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a

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monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$381,843.

As required by Act 32 of June 25, 2013, the Additional Uniform Contribution (AUC) was established for solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to \$111,817, of which \$111,817 (100%) was subsidized by the OMB.

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

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

However, the ESR has not provided to the Municipality the audited actuarial and financial information; instead provided unaudited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015, and therefore, the Municipality complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts, as required by the criteria set forth in the GASB Statement No. 68.

The Retirement Systems issue financial reports, which are publicly available and include the basic financial statements, the required trend information, and any other required supplementary information. These reports may be obtained by written request to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

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2. Postemployment Benefits

In addition to the pension benefits described in note 5, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

14. Landfill Closure and Postclosure Care Costs Obligations

State and federal laws and regulations require the Municipality to place a final cover on its landfill site when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. The Municipality reports \$5,289,600 as landfill closure and post-closure liability at June 30, 2015 based on 100% use of the total capacity of the landfill. Based on the fact that the landfill was closed in September 2013, the liability was fully recognized as of June 30, 2015. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations.

15. Commitments, Contingencies and Uncertainties

Encumbrances

The Municipality has reported, outstanding encumbrances amounting to \$158,794 in the general fund at June 30, 2015. The Municipality intends to honor these encumbrances, which will continue to be liquidated under the current year's budget during a lapse period that extends into the subsequent fiscal year.

Claims and Judgments

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

Two of such cases are lawsuit Cases #13-PM-70 and #11-PM-150, in which the Commission on Investigations, Processing, and Appeals of Puerto Rico (CIPA, by its acronyms in spanish) failed against the Municipality, ordering employees restitution and payback salaries calculated since destitution date (a payment of aproximatelly \$162,767). In both cases. the CIPA decision was

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vigorously appealed in the Puerto Rico Appeals Court, who failed against the Municipality. The Municipality intended vigorously pursues available appeals up to the Puerto Rico Supreme Court, but the cases appellation were not considered. Therefore, at June 30, 2015, the government-wide statement of net position – governmental activities includes such amount as a liability amounting.

With respects to another pending or threatened litigations, the Municipality has reported no liabilities as of June 30, 2015. Management believes, based on the advice of the legal counsel, that the potential claims against the Municipality not covered by insurance will not materially affect the financial resources for its payment.

Federal Financially Assisted Programs

The Municipality receives financial assistance from the federal government in the form of grants and entitlements. Receipts of grants are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal law and regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Circular A-133 of the Office of Management and Budget of the United States of America (OMB Circular A-133). Disallowance as a result of these audits may become liabilities of the Municipality.

16. Fund Balance (Deficit)

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

Fund balances (deficit)	General fund	State legislative joint resolutions fund	Municipal medical center fund	Capital improvement bonds fund	Debt service fund	Other governmental funds	Total
<i>Restricted for:</i>							
Urban and economic development	\$ 59,279	\$ 1,969,791	\$ -	\$ 2,766,915	\$ -	\$ 11	\$ 4,795,996
Public safety	-	-	-	-	-	16,492	16,492
Health and sanitation	-	-	35,802	-	-	39,057	74,859
Culture and recreation and education	-	-	-	-	-	13,850	13,850
Welfare and housing assistance	-	-	-	-	-	92,158	92,158
Debt service	-	-	-	-	3,934,027	-	3,934,027
<i>Unassigned</i>	(3,949,569)	-	-	-	-	-	(3,949,569)
Total fund balances (deficit)	<u>\$ (3,890,290)</u>	<u>\$ 1,969,791</u>	<u>\$ 35,802</u>	<u>\$ 2,766,915</u>	<u>\$ 3,934,027</u>	<u>\$ 161,568</u>	<u>\$ 4,977,813</u>

17. Accounting Changes and Restatements

During fiscal year ended June 30, 2015, the Municipality implemented the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, assets, deferred outflows of resources and deferred inflows of resources, and expense/expenditures for pensions provided to employees of the primary government. It requires the Municipality to record the Municipality's proportionate share of the net pension liability in the government-wide financial statements.

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GASB Statement No. 68 was implemented simultaneously with the provisions of GASB Statement No. 71. *Pension Transition for Contributions Made Subsequent to the Measurement Date; and amendment of GASB Statement No. 68.* This standard allowed governments to record all beginning deferred inflows and deferred outflows associated with the pension. If all beginning balances could not have identified practically, governments should only report deferred outflows for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. The Municipality implemented the Standard by recognizing only the employer contributions made between the measurement date and before the start of the government's fiscal year.

As a result of the implementing these new standards, numerous changes were made to beginning balances. The following schedule reconciles the total net position balance at June 30, 2014, as previously reported by the Municipality, to the beginning net position, as restated in the accompanying GWFS:

	<u>Net position - governmental activities</u>
Assets:	
As previously reported in the audited financial statements at June 30, 2014	\$ 31,245,877
Add:/(deduct): prior-period adjustments	<u>-</u>
Total assets at June 30, 2014, as restated	<u><u>\$ 31,245,877</u></u>
Deferred outflows of resources:	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add:/(deduct): prior-period adjustments	<u>171,926</u>
Total deferred outflows of resources at June 30, 2014, as restated	<u><u>\$ 171,926</u></u>
Liabilities:	
As previously reported in the audited financial statements at June 30, 2014	\$ 36,260,608
Add:/(deduct): prior-period adjustments	<u>22,440,746</u>
Total liabilities at June 30, 2014, as restated	<u><u>\$ 58,701,354</u></u>
Deferred inflows of resources:	
As previously reported in the audited financial statements at June 30, 2014	\$ -
Add:/(deduct): prior-period adjustments	<u>-</u>
Total deferred inflows of resources at June 30, 2014, as restated	<u><u>\$ -</u></u>
Net position (deficit):	
As previously reported in the audited financial statements at June 30, 2014	\$ (5,014,731)
Add:/(deduct): prior-period adjustments	<u>(22,268,820)</u>
Total net position (deficit) at June 30, 2014, as restated	<u><u>\$ (27,283,551)</u></u>

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18. Subsequent Events

Subsequent events were evaluated through November 30, 2016 to determine if any such events should either be recognized or disclosed in the 2015 basic financial statements. The subsequent events disclosed below are related to matters that management believes are of public interest for disclosure.

a) Transition to Value Added Tax

On May 29, 2015, the Commonwealth of Puerto Rico enacted Act 72-2015 (“Act 72”), which, among other things, increased the sales and use tax (“SUT”) by 4.5%, in addition to the then-applicable 7% SUT, and provided for a transition to a value added tax (“VAT”), subject to certain conditions.

Since July 1, 2015, transactions subject to the 7% SUT are now subject to an aggregate 11.5% SUT (10.5%, of which 0.5% goes to a special fund for the benefit of the municipalities, and 1% separately collected by the municipalities). The transition from the SUT to the VAT is scheduled for March 31, 2016; Act 72 permits the Secretary of Treasury to extend the implementation date for up to 60 days.

In addition, since October 1, 2015 and until March 31, 2016, taxable business to business transactions are subject to an aggregate 11.5% SUT and certain business to business services and designated professional services that were previously exempt from SUT are subject to a Commonwealth SUT of 4% (with no municipal SUT applying to these services).

After March 31, 2016 (or the extended implementation date for the VAT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new aggregate VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply to the introduction into Puerto Rico of taxable articles and on taxable transactions which relate to the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a nonresident to a person in Puerto Rico, and combined transactions.

Act No. 72 exempted the following services, among other exemptions, from the business to business SUT: (i) services offered by the Commonwealth government and instrumentalities, (ii) education, (iii) interest and other financing charges, (iv) insurance, (v) health and hospital services, and (vi) services offered by merchants with a volume of business not exceeding \$50,000.

On September 30, 2015, the Governor of Puerto Rico signed into law Act 159-2015, which expanded the services exempt from the 4% SUT to include certain legal services, advertising services, services rendered to a person engaged exclusively in the storage or handling of fuel in a foreign trade zone, services rendered to bona fide farmers, designated professional services rendered to labor unions, and ocean, air and ground transportation of goods, among other services.

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During the first week of May 2016, the Legislature passed a bill repealing the business to business SUT hike to 10.5% and the transition to the VAT. Although the Governor vetoed such bill a week later, the Legislature approved on May 26, 2016 to override the Governor's veto.

b) Puerto Rico Fiscal and Economic Growth Plan

On June 29, 2015, the Governor of Puerto Rico created the Puerto Rico Fiscal and Economic Recovery Working Group (the "Working Group") to evaluate the measures necessary to address the fiscal crisis of the Commonwealth, including the measures recommended in the Krueger Report. The Working Group was responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP"). The FEGP was released on September 8, 2015 and updated on January 18, 2016, and propose the implementation of the following measures, within others: 1) Labor Reform, 2) Energy Rates Stabilization, 3) Corporate Taxes Fostering Growth, 4) Reduction of the Cost of Doing Business in Puerto Rico, 5) Investment in Infrastructure, 6) Transition to the Value Added Tax System, 7) Improving Supervision and Monitoring of Taxpayers, 8) Reduction in Governmental Operational Costs, 9) Reduction of Government Subsidies, 10) Downsizing of the Public Education System, 11) Cost Control of the Commonwealth's Health Program, 12) Promotion of Public-Private Partnerships, 13) Installation of New Accounting Systems, 14) Centralization of the Department of the Treasury's Functions, 15) Betterment of the Fiscal and Economic Decision Making Systems, and 16) Enactment of New Budgetary Rules and Creation of a Fiscal Oversight Board.

On January 18, 2016, the Working Group released an update to the FEGP. The update: (i) revised projections from fiscal year 2016 to fiscal year 2020 to account for year-to-date actual results and (ii) at the request of creditors, extended the updated FEGP projections by another five years to fiscal year 2025.

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

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

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

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entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

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

d) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act

On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium and Rehabilitation Act (“Act No. 21”). Among other objectives, Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth and its component units. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension at the Governor’s discretion. The moratorium and stay provisions of Act No. 21 require executive action of the Governor to become effective.

Act No. 21 also included amendments to GDB’s organic act to include certain statutory options and tools useful for any resolution, reorganization or restructuring that GDB may undertake in the future. Specifically, these amendments modernize the receivership provision in the GDB’s organic act and authorize the creation of a temporary “bridge bank” to carry out the GDB’s functions and honor deposits.

Act No. 21 also created a new fiscal agency and financial advisory authority to assume GDB’s role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities.

Pursuant to Act No. 21, on April 8, 2016, the Governor signed an executive order, EO-2016-010 (“EO 10”), declaring GDB to be in a state of emergency. In accordance with the emergency powers provided in Act No. 21, EO 10 implemented a regulatory framework governing GDB’s operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests in respect of funds held on deposit at GDB. To that effect, EO 10 restricts the withdrawal, payment and transfer of funds held on deposit at GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements.

The procedures implemented by EO 10 result in restrictions on the ability of the Municipality to withdraw funds held on deposit at GDB. However, the Municipality still has funds deposited at GDB, subject to the limitations on withdrawals of funds from GDB.

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e) Actions of the U.S. Government and Congress

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

First, to ensure fiscal and economic discipline, PROMESA creates a federally appointed oversight board that has plenary authority over Puerto Rico's finances. The board's primary function is to provide fiscal oversight through the development and approval of fiscal plans and budgets, and to enforce compliance with those plans and budgets through broad-based powers such as reducing nondebt expenditures and instituting certain hiring freezes. The board also has oversight over legislative processes because PROMESA requires the board to review new laws and deny their enforcement if they are inconsistent with the approved fiscal plans and budgets. The board also has authority to review contracts to ensure compliance with the fiscal plan, and to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

Second, the enactment of PROMESA also operates as a broad-based stay on litigation, applicable to all entities, with respect to claims related Puerto Rico's financial debt, as well as on enforcement of provisions in contracts that allow for termination and the exercise of remedies based on non-payment of financial obligations, among other conditions.

Finally, PROMESA contains two methods to adjust Puerto Rico's debts. The first method is a streamlined process to achieve modifications of financial indebtedness with the consent of a supermajority of affected financial creditors. This method has benefits such as potential speed relative to a traditional restructuring through a formal in-court process. The second method is a court supervised debt-adjustment process, which is modeled on Chapter 9 of the U.S. Bankruptcy Code. This process includes the so-called "cram-down" power, which may provide Puerto Rico with flexibility in debt adjustment, but it also gives the oversight board total control over the adjustment process and includes certain provisions designed to protect creditor interests.

f) Voluntary Pre-Retirement Program

On December 8, 2015, the Commonwealth of Puerto Rico enacted the Act No. 211-2015 to create a Voluntary Pre-retirement Program. This Act, among other provisions, establishes that employees who started contributing to the ERS before April 1, 1990 with at least 20 years of service may be eligible to participate in the program. Those who participate in the program would be paid 50% of their average salary (except police officers, which would be paid 60%). These payments will be made until the employee becomes eligible to receive payments from the ERS.

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Other benefits would include the payment of the participant's health care plan during the first two years of the program.

g) CRIM lawsuit against GDB

As of June 30, 2015, Puerto Rico municipalities maintained approximately \$515 million on deposit at GDB in special debt service deposit accounts, which are funded primarily from the proceeds of a special property tax (Special Additional Tax). As of July 31, 2015, after the July debt service payment, the aggregate balance of debt service deposits related to the Special Additional Tax was \$266 million. These funds are collected by the CRIM and used for debt service payments of general obligations bonds issued by the municipalities and, by law, have to be deposited in trust at GDB. On June 29, 2015, the CRIM filed suit requesting that GDB execute a deed of trust pursuant to Puerto Rico law. The CRIM also stopped transferring collected revenue to GDB until the deed of trust was executed. GDB opposed the CRIM's suit asserting that the law already provided a statutory trust and, hence, there was no need for a deed of trust as requested by the CRIM. On October 23, 2015, the parties announced that a settlement had been reached, that a deed of trust would be executed and that new investment guidelines for the municipalities' funds would be approved and applied thereon. On November 2, 2015, the parties executed the deed of trust and on November 4, 2015, a judgment was entered by the Court ending the litigation. The execution of the deed of trust and the new investment guidelines are not expected to have a material adverse effect on GDB's current liquidity or financial position.

End of Notes to Basic Financial statements

**Required Supplementary Information
Budgetary Comparison Schedule – General Fund
Fiscal Year Ended June 30, 2015**

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Budgetary Comparison Schedule- General Fund
(See Notes to Budgetary Comparison Schedule)
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	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(budgetary</u>	<u>final budget –</u>
Revenues:			<u>basis)</u>	<u>over (under)</u>
Property taxes	\$ 2,163,152	\$ 2,163,152	\$ 2,188,465	\$ 25,313
Sales and use taxes	1,631,000	1,631,000	1,337,396	(293,604)
Municipal license taxes	1,648,905	1,648,905	1,571,905	(77,000)
Construction excise taxes	460,000	460,000	272,672	(187,328)
Intergovernmental grants and contributions	4,685,191	4,685,191	4,638,807	(46,384)
Interest on deposits	30,000	30,000	183,002	153,002
Charges for services	30,000	30,000	9,865	(20,135)
Miscellaneous	145,839	145,839	254,534	108,695
Total revenues	<u>10,794,087</u>	<u>10,794,087</u>	<u>10,456,646</u>	<u>(337,441)</u>
Expenditures and encumbrances:				
General government	5,114,039	5,787,177	4,736,190	1,050,987
Urban and economic development	3,990,643	3,303,805	3,387,937	(84,132)
Public safety	421,418	550,953	392,988	157,965
Health and sanitation	550,953	421,418	536,087	(114,669)
Culture, recreation and education	323,976	185,083	316,587	(131,504)
Welfare and housing assistance	185,083	337,676	138,312	199,364
Total expenditures	<u>10,586,112</u>	<u>10,586,112</u>	<u>9,508,101</u>	<u>1,078,011</u>
Revenues over (under)				
expenditures and encumbrances	<u>207,975</u>	<u>207,975</u>	<u>948,545</u>	<u>740,570</u>
Other financing sources (uses):				
Transfer in from other governmental funds	-	-	-	-
Transfer out to other governmental funds	<u>(207,975)</u>	<u>(207,975)</u>	<u>(162,438)</u>	<u>45,537</u>
Total other financing sources (uses)	<u>(207,975)</u>	<u>(207,975)</u>	<u>(162,438)</u>	<u>45,537</u>
Net increase (decrease)				
in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 786,107</u>	<u>\$ 786,107</u>

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Budgetary Comparison Schedule- General Fund
(See Notes to Budgetary Comparison Schedule)
June 30, 2015

Reconciliation of differences:

Sources/inflows of financial resources:

Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	\$ 10,456,646
Differences - budgetary basis to GAAP:	
Differences in bases of accounting:	
GAAP adjustments to revenues	<u>23,553</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 10,480,199</u>

Uses/outflows of financial resources:

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 9,508,101
Timing differences:	
Current year encumbrances recorded as expenditures for budgetary purposes	(158,794)
Prior year encumbrances recorded as expenditures for GAAP purposes	229,904
Entity differences:	
Non-budgeted expenditures	<u>163,705</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 9,742,916</u>

See accompanying notes to financial statements.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Notes to Budgetary Comparison Schedule- General Fund
June 30, 2015

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

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

The Municipality did not adopted a budget for the major special revenue funds because it is not legally required to do so.

Required Supplementary Information
Retirement Plan
Fiscal Year Ended June 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Schedule of the Municipality's Proportionate Share of the Net Pension Liability
Puerto Rico Government Employees Retirement System – Municipality's Employees Only
Last 10 Fiscal Years

<u>Municipality's Employees</u>	<u>2015</u>
Proportion of the collective net pension liability	0.08074%
Proportionate share (amount) of the collective net pension liability	\$ 521,969
Covered-employee payroll	\$ 1,601,968
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	32.58%
Plan fiduciary net position as a percentage of the total pension liability	0.42%

Notes to Schedule:

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Schedule of the Municipality's Contributions
Cost-Sharing Multiple Employer Defined Benefit Pension Plans – Employer Contributions
Puerto Rico Government Employees Retirement System – Municipality's Employees Only
Last 10 Fiscal Years

	2015
<u>Municipality's Employees</u>	
Contractually required contribution	\$ 228,681
Contributions in relation to the contractually required contribution	(228,681)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 1,601,968
Contributions as a percentage of the covered-employee payroll	14.275%

Notes to Schedule:

- 1) The Puerto Rico Government Employees Retirement System includes the Municipality in its definition of municipal employees.
- 2) Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

**Section 8 Housing Choice Voucher Program
Financial Data Schedule
Fiscal Year Ended June 30, 2015**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Balance Sheet		
111	Cash-unrestricted	\$ 25,086
113	Cash-other restricted	2,327
100	Total Cash	27,413
124	Accounts receivable – other government	1,323
128	Fraud recovery	15,170
128.1	Allowance for doubtful accounts – fraud	-
120	Total Receivables, Net of Allowance for Doubtful Accounts	16,493
150	Total Current Assets	43,906
164	Furniture, equipment and machinery - administration	28,020
166	Accumulated depreciation	(26,619)
160	Total capital assets, net of accumulated depreciation	1,401
180	Total Non-Current Assets	1,401
290	Total Assets	\$ 45,307
322	Accrued compensated absences - current portion	\$ 4,111
333	Accounts payable - other government	30,056
310	Total Current Liabilities	34,167
354	Accrued compensated absences- Non-current	3,193
350	Total Non-Current Liabilities	3,193
300	Total Liabilities	37,360
508.4	Invested in capital assets, net of related debt	1,401
511.4	Restricted Net Position	17,497
512.4	Unrestricted Net Position	(10,951)
513	Total Net Position	7,947
600	Total Liabilities and Net Position	\$ 45,307

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
Income Statement		
70600-010	Housing assistance payments	\$ 211,015
70600-020	Ongoing administrative fees earned	31,832
70600	HUD PHA operating grants	242,847
71500	Other revenue	34,123
72000-010	Housing assistance payments	13
72000	Investment income - restricted	13
70000	Total Revenue	276,983
91100	Administrative salaries	30,386
91500	Employee benefit contributions - administrative	5,239
91600	Office Expenses	2,421
91000	Total Operating-Administrative	38,046
96210	Compensated absences	57
96000	Total Other General Expenses	57
96900	Total Operating Expenses	38,103
97000	Excess Revenue Over Operating Expenses	238,880
97300-050	All Other	248,208
97300	Housing assistance payments	248,208
97350	HAP Portability-in	28,702
97400	Depreciation expense	-
90000	Total Expenses	315,013
10000	Excess (Deficiency) of Revenue Over (Under) Expenses	\$ (38,030)
11030	Beginning equity	\$ 45,977
11170-001	Administrative Fee Equity- Beginning Balance	\$ (7,249)
11170-010	Administrative Fee Revenue	31,832
11170-050	Other Revenue	32,672

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Financial Data Schedule
Year Ended June 30, 2015

Line Item No.	Description	Housing Choice Vouchers (CFDA No. 14.871)
11170-051	Comment for Other Revenue	Portability Move- In Collections
11170-060	Total Admin Fee Revenues	64,504
11170-080	Total Operating Expenses	38,103
11170-090	Depreciation	-
11170-095	Housing Assistance Portability In	28,702
11170-100	Other Expenses	
11170-101	Comment for Other Expense	
11170-110	Total Expenses	66,805
11170-002	Net Administrative Fee	(2,301)
11170-003	Administrative Fee Equity- Ending Balance	(9,550)
11170	Administrative Fee Equity	\$ (9,550)
11180-001	Housing Assistance Payments Equity - Beginning Balance	\$ 53,226
11180-010	Housing Assistance Payment Revenues	211,015
11180-020	Other Revenue	1,451
11180-021	Comment for Other Revenue	Expired Checks (outstanding more than 1 year)
11180-025	Investment Income	13
11180-030	Total HAP Revenues	212,479
11180-080	Housing Assistance Payments	248,208
11180-100	Total Housing Assistance Payments Expenses	248,208
11180-002	Net Housing Assistance Payments	(35,729)
11180-003	Housing Assistance Payments Equity-Ending Balance	17,497
11180	Housing Assistance Payments Equity	\$ 17,497
11190-210	Total ACC HCV Units	828
11190	Unit Months Available	828
11210	Unit Months Leased	633

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SANTA ISABEL
Notes to Financial Data Schedule
Year Ended June 30, 2015

NOTE A – 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 manager 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.

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

**Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2015**

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through State - Department of Education:			
Child and Adult Care Food Program	10.558	CCC-191	\$ 22,585
Total U.S. Department of Agriculture			<u>22,585</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Program:			
Section 8 Housing Choice Voucher	14.871		242,847
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State’s Program	14.228	14-AB-60 13-AB-60 12-AB-FC-60 11-AB-FC-60 10-AB-FC-60 09-AB-FC-60	<u>476,289</u>
Total U.S. Department of Housing and Urban Development			<u>719,136</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through State – Administration for Integral Care and Development of Children:			
Child Care and Development Block Grant		241-2015-000042 241-2015-000042A 241-2015-000042B 241-2014-00100B	<u>435,096</u>
Total U.S. Department of Health and Human Service:			<u>435,096</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,176,817</u>

See notes to the Schedule of Expenditures of Federal Awards

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2015

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of **Santa Isabel**, Puerto Rico (Municipality) and is presented on the modified accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
2. The Municipality in accordance with the terms, records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
3. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

NOTE 3 – FEDERAL CFDA NUMBER

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

NOTE 4 – PASS-THROUGH GRANTOR'S NUMBER

State or local government redistribution of federal awards to the Municipality, treated as if 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 identifying number assigned by the pass-through entity for federal awards received as a sub recipient. Numbers identified as N/AV are not available.

NOTE 5 – MAJOR PROGRAMS

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

Viviana Vélez Carrasquillo

Certified Public Accountant

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

To the Honorable Mayor and
Members of the Municipal Legislature
Municipality of Santa Isabel, Puerto Rico

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of Municipality of **Santa Isabel**, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued my report thereon dated November 30, 2016. I did not express an opinion on the governmental activities because I was unable to obtain sufficient and competent evidential matter related to the capital assets and information related to the net pension liability, deferred outflows/ inflows of resources and pension expense. Also, I issued a qualified opinion on the General Fund, the State Legislative Joint Resolutions Fund, the Capital Improvement Fund and the aggregate remaining fund because the Municipality did not maintain adequate accounting records of the interfund transactions and the corresponding due from and due to account balances. The opinion on the Municipal Medical Center Fund and the Debt Service Fund was unmodified.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not design 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, I identified certain deficiencies in internal control that I 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 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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 2015-001, 2015-002, 2015-003, 2015-006 and 2014-007.

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

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany Schedule of Findings and Questioned Costs to be significant deficiencies. Findings 2015-004 and 2015-005.

Compliance and Other Matters

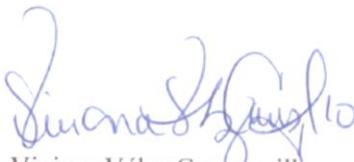
As part of obtaining reasonable assurance about whether the Municipality’s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001, 2015-003 and 2015-007.

Municipality’s Response to Findings

Municipality’s response to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.


Viviana Vélez Carrasquillo
License Number 5288

Carolina, Puerto Rico
November 30, 2016



Viviana Vélez Carrasquillo

Certified Public Accountant

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

To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Santa Isabel, Puerto Rico

Report on Compliance for Each Major Federal Program

I have audited Municipality of **Santa Isabel**, Puerto Rico (Municipality) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality's major federal programs for the fiscal year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Major Federal Programs

As identified in the findings numbers listed in the table below and described in the accompanying Schedule of Findings and Questioned Costs, the Municipality, did not comply with requirements regarding the following:

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

Basis for Qualified Opinion on Major Federal Programs (continued)

Awarding Agency	Federal Program	Compliance Requirement	Finding Number
Housing and Urban Development	14.228- CDBG- State’s Program	Cash Management	2015-008
Housing and Urban Development	14.228- CDBG- State’s Program	Reporting	2015-009
Health and Human Services	93.575- Child Care and Development Block Grant	Reporting	2015-011

Compliance with such requirements is necessary, in my opinion, for the Municipality to comply with the requirements applicable to the programs.

Qualified Opinion on Major Federal Programs

In my opinion, except for the noncompliance described in the “Basis for Qualified Opinion on Major Federal Programs” paragraph, the Municipality, 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 the major federal programs listed in the “Basis for Qualified Opinion on Major Federal Programs” paragraph for the year ended June 30, 2015.

Other Matters

The results of my auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-010. My opinion on each major federal program is not modified with respect to these matters.

Municipality’s response to the noncompliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

Report on Internal Control over Compliance

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

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

Report on Internal Control over Compliance (continued)

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. I considered the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-008, 2015-009 and 2015-011 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-010 to be significant deficiency.

Municipality’s response to the internal control over compliance findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.


Viviana Vélez Carrasquillo
License Number 5288



Carolina, Puerto Rico
November 30, 2016

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on the basic financial statements:

Opinion Units

Governmental activities
General Fund
State Legislative Joint Resolutions Fund
Municipal Medical Center Fund
Capital Improvement Bond Funds
Debt Service Fund
Aggregate remaining fund

Type of Opinions

Disclaimer
Qualified
Qualified
Unmodified
Qualified
Unmodified
Qualified

Internal Control over financial reporting:

Material weakness identified?	Yes	X	No
Significant deficiencies identified?	Yes	X	None reported

Noncompliance material to financial statements noted?	Yes	X	No
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Federal awards

Internal Control over major programs:

Material weakness identified?	Yes	X	No
Significant deficiencies identified?	Yes	X	None reported

Type of auditor’s report issued on compliance for major programs:

Qualified opinion for Community Development Block Grants–State’s Program and for Child Care and Development Block Grant

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes	X	No
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Identification of major programs

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants – State’s Program
93.575	Child Care and Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes	No	X
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MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-001
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CONDITION	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with generally accepted accounting principles (GAAP).
CONTEXT	<p>During our examination of the Municipality’s accounting system, I noted that the accounting data still require several reporting adjustments in order to present the Municipality’s financial statements in the modified accrual basis of accounting. Also, the accounting data require several reporting adjustments to produce government wide financial statements.</p> <p>The Municipality hires the professional services of local accounting firm to perform the required adjustment entries to present properly the modified basis financial statements and compile the necessary information to convert its accounting records from modified basis to accrual basis as required by GAAP and Law No. 81.</p> <p>During the examination of the financial statements, I noted that the General Fund has an unassigned accumulated deficit of \$3,949,569.</p> <p>Also, I noted that at June 30, 2015, an obligation of \$185,015, related to the services of waste management was not recorded in the budget liquidation (the manual accounting report that summarizes the annual budgetary operations of the General Fund). This amount was recorded in the financial statements as an account payable at June 30, 2015.</p>
CRITERIA	<p>Article 8.010 (b) of State Act Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991, states that the Municipalities must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010 (c) (1) and (3) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.</p> <p>In addition, Article 8.004 (b) establishes that Municipalities cannot obligate or spend funds, during the fiscal year, in excess of the amounts approved by resolutions or ordinances for the fiscal year. Also, Article 7.010, establishes the procedures and controls over the supervision and compliance with the operational budget. Finally, Article 7.011 (a), states that for any accumulated deficit incurred in the General Fund at the end of any given fiscal year, the Municipality must reserve the necessary financial resources in the General Fund’s operating budget of the immediately following fiscal year to cover such deficit.</p>

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-001 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS AND REPORTING SYSTEM
CAUSE	The Municipality did not maintain effective internal controls over the accounting records. Also, the accounting data does not provide adequate and effective financial information to generate the basic financial statement. In addition, the Finance Department personnel failed to maintain adequate monitoring procedures over the budgetary process during the fiscal year.
EFFECT	The Municipality is not in compliance with the Articles 7.010, 7.011, 8.004 and 8.010 of the State Act Number 81- <i>Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico</i> of August 30, 1991.
RECOMMENDATION	<p>I recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides trial balances by each fund in the modified accrual basis of accounting. In addition, the accounting system should provide for the maintenance of the capital assets and the general long term debt of the Municipality. Also, the accounting records of the Municipality should be precisely enough, to support the amounts presented in the financial statements.</p> <p>The Municipality should continue improving its internal controls and procedures over the budgetary process. Also, the Municipality should evaluate a cost reduction plan and continue increasing the collection efforts over the General Fund revenues.</p>
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Municipality implemented a new accounting software (SIMA, by its acronyms in Spanish) in order to maintain all accounting and financial information and prepare Municipality's financial statements. It's important to comment that it is the first year of implementation of SIMA. The Municipality's Financial Department staff has been the best effort to record transactions based on the modified accrual basis of accounting, in order to provide to the management to-the-minute financial information to take informed management decisions.</p> <p>Implementation Date: Done.</p> <p>Responsible Person: Mrs. Noelia Meléndez Cruz Finance Department Director (Interim)</p>

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-002
REQUIREMENT	ACCOUNTING RECORDS- CAPITAL ASSETS
CONDITION	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
CONTEXT	The Municipality does not have complete and adequate records over the capital assets reported in the governmental activities. Also, the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures related to infrastructure are recorded in the capital assets subsidiary ledger. These infrastructure assets should be reported as part of the capital assets of the Municipality, according to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34).
CRITERIA	Article 8.010 (c) (3) of the State Law Number 81- <i>Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico de 1991</i> of August 30, 1991, states that Municipalities should have systems that have effective controls and accounting over the capital assets. Also, GASB Statement No. 34, requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.
CAUSE	The lack of an adequate capital assets register did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
EFFECT	The Municipality’s government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
RECOMMENDATION	I recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger. Also, management should be aware that the accumulated depreciation and the depreciation expense are properly calculated.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Municipality implemented a new accounting software (SIMA, by its acronyms in Spanish) in order to maintain all accounting and financial information, including a capital assets subsidiary ledger.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-002 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS- CAPITAL ASSETS**

Also, the Municipality’s Finance Department staffs continue updating the capital records. In addition, we are considering engaging with a professional to evaluate the Municipality’s infrastructure assets.

Implementation Date: June 2017

Responsible Person: Mrs. Noelia Meléndez Cruz
Finance Department Director (Interim)

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-003
REQUIREMENT	ACCOUNTING RECORDS- INTERFUND TRANSACTIONS
CONDITION	The Municipality transfer funds from the State Legislative Joint Resolutions Fund (a special revenue fund) to the General Fund without adequate supporting documentation.
CONTEXT	<p>During past years, the Municipality transfer funds to the General Fund bank account from the State Legislative Joint Resolutions Fund, in which state assignments and grants are accounted. These amounts were pooled with the unrestricted resources of the General Fund. Such state assignments and grants are restricted by Joint Resolutions of both the State House of Representative and Senate. During the fiscal year 2014-2015 I noted that the Municipality reimbursed \$241,000 from the General Fund bank account to the State Legislative Joint Resolutions Fund. However, at June 30, 2015, interfund debt between these funds amounting \$2,021,005.</p> <p>Also, I noted that the Municipality does not maintain adequate internal controls and accurate subsidiary records over the interfund transactions between the General Fund, the State Legislative Joint Resolutions Fund, Capital Improvement Fund and other non-major funds.</p>
CRITERIA	Article 8.004 (c) of the State Law Number 81 - Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 - August 30, 1991, states that the restricted funds received by the Municipality should be only used for the purposes established by these resources. In addition, Article 8.010 (C) (2) and (3) of State Act Number 81- Ley de Municipios Autonomos del Estado Libre Asociado de Puerto Rico of August 30, 1991, states that Municipalities should maintain accurate accounting records and funds controls.
CAUSE	The Municipality's management did not maintain adequate control of the accountability of the interfund transactions and the due from and due to account balances.
EFFECT	The Municipality is not in compliance with Chapter VIII, Article 8.004 (c) and Article 8.010 (c) (2) (3) of the State Act No. 81.
RECOMMENDATION	I recommend management to implement procedures in order to obtain and maintain accurate subsidiary records that supports the interfund transactions. These records should include the purpose of the transfers, the name of the funds that received the loans and the balance of the interfund, by each fund.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-003 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS- INTERFUND TRANSACTIONS**

**MANAGEMENT RESPONSE AND
CORRECTIVE ACTION PLAN**

The Municipality implemented a new accounting software (SIMA, by its acronyms in Spanish) in order to maintain all accounting and financial information and prepare Municipality's financial statements. Also, we will transfer the funds mentioned in the Condition as soon as possible.

Implementation Date: March 31, 2017.

Responsible Person: Mrs. Noelia Meléndez Cruz
Finance Department Director (Interim)

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-004
REQUIREMENT	ACCOUNTING RECORDS- BANK RECONCILIATIONS AND REVENUES CYCLE
CONDITION	The Municipality does not have effective internal control procedures over the daily collection receipts and the preparation of bank reconciliations.
CONTEXT	<p>During the cash test, I noted that the Municipality has not prepared the bank reconciliations for the fiscal year 2014-2015 for several bank accounts. Also, I noted that the bank reconciliation process consists only of including the ending bank balance, less the outstanding checks of the month. Therefore, there was not a monthly reconciliation process with the Municipality’s accounting system.</p> <p>In addition, during the examination of the revenue cycle of the Municipality, I selected forty (40) collection receipts and forty (40) daily cash balance reports (284 deposits slips) and noted the following situations;</p> <ol style="list-style-type: none">1. Seventy-one (71) deposits were made between 4 and 39 days after the collection receipts date;2. There were deficiencies in the filing of the collection deposit slips and other supporting documents that did not allow the proper tracing of collections to deposits. Four (4) daily cash balance reports include collections receipts that were not traced to a deposit slip nor the bank statements.
CRITERIA	Chapter IV, Section 12 of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner’s Office for Municipal Affair (OCAM), establishes that the accounting system of the municipalities shall provide for the timely and accurate preparation of bank reconciliations. Also, Chapter III, Sections 3, 4 and 5 establishes the procedures and controls to follow regarding the revenues and collection cycle.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-004 (CONTINUED)
REQUIREMENT	ACCOUNTING RECORDS- BANK RECONCILIATIONS AND REVENUES CYCLE
CAUSE	The accounting supervisor failed to assure that the bank reconciliations were reconciled with the accounting records. Also, the Revenue Collector Officer of the Municipality did not followed adequate internal controls over the revenues and collection cycle.
EFFECT	The Municipality is not in compliance with Chapter III and IV, of the Municipal Administration Regulatory Manual of the OCAM.
RECOMMENDATION	I recommend management to assure that the bank reconciliations are reconciled on a monthly basis with the accounting records in order to maintain proper control over cash. Also, the revenues collection office of the Municipality should continue improving the internal controls over the collection receipts and the accountability of the revenue collections.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Municipality’s Finance Department staffs were instructed to reconcile the banks accounts with the Model 4-A in a monthly basis.</p> <p>Also, it’s important to comment that the Municipality implemented a new accounting software (SIMA, by its acronyms in Spanish) in order to maintain all accounting and financial information, including the reconciliation of cash accounts.</p> <p>Implementation Date: January 31, 2017</p> <p>Responsible Person: Mrs. Noelia Meléndez Cruz Finance Department Director (Interim)</p>

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005
REQUIREMENT	INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE
CONDITION	During the fiscal year 2014-2015, the Municipality disbursed funds without the appropriate supporting documentation.
CONTEXT	<p>During the examination of the Municipality’s disbursement process, I examined sixty (60) checks of the General Fund and special revenue funds (seventy-nine (79) disbursement vouchers) and noted the following deficiencies:</p> <ol style="list-style-type: none">1. The disbursement vouchers of eighteen (18) checks were not available for my examination;2. The requisition of eight (8) disbursement vouchers were not available for my examination;3. In seven (7) disbursement vouchers I did not identify the original invoice;4. In twenty-one (21) disbursement vouchers, the receiving report was not available for my examination;5. In twenty-six (26) disbursement vouchers, the purchase orders were issued after the invoices and the services or goods were received;6. Fifty (50) disbursement vouchers were not approved by one of the responsible employees;7. The purchase orders in eleven (11) disbursement vouchers were not approved by one of the responsible employees;8. In five (5) disbursement vouchers, I noted that the acquisition process (procurement) was incomplete or was not properly documented by the responsible employees of the acquisition cycle.
CRITERIA	The Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner’s Office for Municipal Affair (OCAM), establishes the internal control procedures that the Municipalities should follow during the disbursement cycle.
CAUSE	The Municipality’s disbursement procedures and internal controls were not adequately followed by the responsible employees and supervisors.
EFFECT	The failure of the application of the disbursement procedures and controls could result in the payment of amounts not properly supported. Also, if the acquisition policies are not followed adequately could result in higher costs of services and goods charged to the Municipality.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-005 (CONTINUED)
REQUIREMENT	INTERNAL CONTROLS AND PROCEDURES OVER THE DISBURSEMENT CYCLE
RECOMMENDATION	I recommend management to follow and continue improving the internal control procedures in order to obtain and maintain all the required supporting documents related to the disbursements process prior to the issuance of the checks.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We will improve our purchases and expenditures procedures in order to correct the conditions reported in this finding by the external auditors, providing technical training to the Finance Department Staff and increasing supervision on such procedures. Implementation Date: December 31, 2016 Responsible Person: Mrs. Noelia Meléndez Cruz Finance Department Director (Interim)

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-006
REQUIREMENT	ACCOUNTING RECORDS – NET PENSION LIABILITY
CONDITION	The Municipality recorded the proportionate net pension liability of its participation in the State Employee Retirement System Administration and the related deferred outflows/ deferred inflows of resources and pension expense, in the government wide financial statements based on unaudited information provided by the State Employees’ Retirement System Administration, which is a cost-sharing multiple-employer pension plan.
CONTEXT	I was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/ inflows of resources, net pension liability, and pension expense of the governmental activities and the note disclosure of the pension plan.
CRITERIA	GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan. This statement requires that the Municipality report in its proportionate share of the collective net pension liability, pension expense and deferred outflows/ inflows of resources related to pensions as of the measurement date. It also requires disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.
CAUSE	The State Employee Retirement System Administration did not provided in a timely manner, to the Municipality, audited information related to the pension plan.
EFFECT	The Municipality’s Government-Wide Financial Statements presents unaudited amounts related to the net pension, deferred inflows/ outflows of resources and the pension expense.
RECOMMENDATION	I recommend management to request to the State Employees Retirement System Administration, the audited actuarial and financial information and make the necessary adjustments in the Government Wide financial statements in order to comply with the requirements of the GASB Statement No. 68.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER **2015-006 (CONTINUED)**

REQUIREMENT **ACCOUNTING RECORDS – NET PENSION LIABILITY**

**MANAGEMENT RESPONSE AND
CORRECTIVE ACTION PLAN**

We are going to send a formal request to the State Employees Retirement System Administration, in order to obtain the audited actuarial and financial information and make the necessary adjustments in the Government Wide financial statements in order to comply with the requirements of the GASB Statement No. 68.

Implementation Date: December 31, 2016

Responsible Person: Mrs. Noelia Meléndez Cruz
Finance Department Director (Interim)

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION II – FINANCIAL STATEMENTS FINDINGS

FINDING NUMBER	2015-007
REQUIREMENT	SINGLE AUDIT SUBMISSION
CONDITION	The Municipality did not comply with the required due date for the submission of the Single Audit Report.
CONTEXT	The Municipality did not submit to the Federal Audit Clearinghouse, in a timely manner, the Single Audit reporting package for the fiscal year ending on June 30, 2015. The due date for this report was no later than March 31, 2016.
CRITERIA	OMB Circular A-133, Subpart C, Section 320 (a) states that all audits shall be completed and submitted to the Federal Audit Clearinghouse and the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit report.
CAUSE	Due to the lack of adequate accounting records, the Municipality did not comply with the requirements established in OMB Circular A-133.
EFFECT	The Municipality is not in compliance with OMB Circular A-133, Subpart C, Section 320 (a). Also, the Municipality could be sanctioned by the Federal Government for the non compliance of this requirement.
RECOMMENDATION	I recommend management to establish adequate accounting records that allow for the timely completion of its financial statements and performance of the Single Audit.
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We gave instruction to the Finance Department staff to submit, in a timely manner, all the required financial information, to our external auditors, in order to comply with the datelines for the submission of the Single Audit Report for the fiscal year 2015-2016, which is March 31, 2017. Implementation Date: March 31, 2017 Responsible Person: Mrs. Noelia Meléndez Cruz Finance Department Director (Interim)

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-008
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
CONDITION	During the fiscal year 2014-2015, the Program maintained high levels of adjusted cash balance.
CONTEXT	The Municipality maintained two (2) bank accounts for the Community Development Block Grants - State's Program's funds. During the cash management test, I noted that during the fiscal year 2014-2015, the Program maintained an average adjusted cash balance, in the bank reconciliations, of approximately, \$17,426 and \$49,468, respectively.
CRITERIA	Code of Federal Regulations 24, Section 570.489 (c) states that units of general local governments must use procedures to minimize the time elapsing between the transfer of funds by the State and disbursement made by the grantee for CDBG activities.
CAUSE	The Program did not maintain appropriate cash management procedures in order to disburse the funds requested to the pass-through entity in a timely manner.
EFFECT	The Program is not in compliance with Code of Federal Regulations 24, 570.489 (c).
RECOMMENDATION	I recommended management to continue strengthening its disbursement procedures to minimize the time between the transfer of funds by the pass through entity and the disbursements made by the Program.
QUESTIONED COSTS	None

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-008 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM; (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	CASH MANAGEMENT
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We will instruct our Program accountant to follow the established procedures to drawdown and disburse the funds, in a timely manner, in order to demonstrate compliance with the cash management regulations. Implementation Date: December 31, 2016 Responsible Person: Mr. Ricardo Burgos Colón Federal Programs Director

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-009
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Program did not maintain accurate accounting records of the financial transactions.
CONTEXT	During my reporting test, I found that the accumulative expenditures per program year reported in the quarterly reports of the fiscal year 2015-2016, submitted to the pass-through entity (OCAM), did not reconcile with the program accounting records (check register).
CRITERIA	Code of Federal Regulations 24, Section 85.20 (b) (1) states that accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Code of Federal Regulations 24, Section 85.20 (b) (2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially- assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
CAUSE	The accounting staff is not reconciling its accounting records with the quarterly reports in order to assure that there are no differences.
EFFECT	The Program did not submit accurate quarterly reports to the pass-through entity in order to comply with the pass-through agency requirements and the Federal regulation.
RECOMMENDATION	The Program should implement adequate accounting records to ensure that the financial information submitted to the pass-through entity in its quarterly reports agrees with the accounting records.
QUESTIONED COSTS	None

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-009 (CONTINUED)
FEDERAL PROGRAM	COMMUNITY DEVELOPMENT BLOCK GRANTS / STATE'S PROGRAM (CFDA NO. 14.228) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – OFFICE OF COMMISSIONER OF MUNICIPAL AFFAIRS - OCAM
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	<p>The Program accountant was instructed to reconcile on a monthly basis the accounting records and the bank reconciliation and to assure that the quarterly reports are supported and easily traceable to the accounting records.</p> <p>Implementation Date: December 31, 2016</p> <p>Responsible Person: Mr. Ricardo Burgos Colón Federal Programs Director</p>

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-010
FEDERAL PROGRAM	CHILD CARE AND DEVELOPMENT BLOCK GRANT; (CFDA NO. 93.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS THROUGH STATE – ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST
CONDITION	During the fiscal year 2014-2015, the Program fail to apply the internal control and procedures established over the disbursement process.
CONTEXT	<p>During the grant disbursement test, I examined ten (10) non payroll checks, representing fourteen (14) voucher payments and noted the following conditions:</p> <ul style="list-style-type: none">a. In fourteen (14) voucher payments, the invoices were not cancelled once the payment was made;b. In two (2) voucher payments, the disbursement vouchers were not approved (signed) by one of the responsible employees.c. In eleven (11) voucher payments, the purchase orders were prepared after the contractor start to provide the services. Also, these purchase orders were registered by an amount different to the one established in the contract, due to an error in the contract amount.
CRITERIA	Code of Federal Regulations 45, Section 98.67 (c) (2) states that fiscal control and accounting procedures should be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part. Also, The Chapter IV of the Municipal Administration Regulatory Manual of the Puerto Rico Commissioner’s Office for Municipal Affair (OCAM), establishes the internal control procedures that the Municipalities should follow during the disbursement cycle.
CAUSE	The Program personnel did not implement adequately the internal controls over the disbursement process.
EFFECT	The failure of the application of the disbursement procedures and controls could result in the payment of amounts not properly supported.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-010 (CONTINUED)
FEDERAL PROGRAM	CHILD CARE AND DEVELOPMENT BLOCK GRANT; (CFDA NO. 93.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS THROUGH STATE – ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	INTERNAL CONTROL
NONCOMPLIANCE	ALLOWABLE COST
RECOMMENDATION	I recommend management to continue strengthening the internal controls and procedures designed to appropriately review the payments vouchers and all the supporting documentation prior to the issuance of a payment.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	We will strengthen our internal control system in order assure that any procedure and all of the required signatures, documentation and supporting documents related to the disbursements process were obtained prior to the issuance of the checks, and that all of supporting documents were marked as paid. Implementation Date: December 31, 2016 Responsible Person: Mr. Ricardo Burgos Colón Federal Programs Director

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER	2015-011
FEDERAL PROGRAM	CHILD CARE AND DEVELOPMENT BLOCK GRANT; (CFDA NO. 93.575) U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASS THROUGH STATE – ADMINISTRATION FOR CARE AND INTEGRAL DEVELOPMENT OF CHILDHOOD (ACUDEN)
REQUIREMENT	COMPLIANCE AND INTERNAL CONTROL
NONCOMPLIANCE	REPORTING
CONDITION	The Program did not submit accurate quarterly reports to the pass-through agency.
CONTEXT	During my reporting test, I found that the quarterly reports of the fiscal year 2014-2015, submitted to the pass-through entity (ACUDEN), were not prepared using the required accounting basis.
CRITERIA	Code of Federal Regulation 45, 92.20 (b) (1) states that the grantees and subgrantees financial management system must assure accurate, current, and complete disclosure of the financial results of the financially assisted activities in accordance with the financial reporting requirements of the grant or subgrant. Also, Clause Seven, Section (2) of the grant agreement with the pass-through entity, states that the Program is required to submit the quarterly reports using the form provided by the pass-through entity.
CAUSE	The accounting staff did not prepare the quarterly reports according to the requirements of the pass-through entity.
EFFECT	The Program did not submit accurate quarterly reports in order to comply with the pass-through entity requirements and the Federal regulation.
RECOMMENDATION	The Program should implement adequate accounting records to ensure that the financial information submitted in its quarterly reports complies with the pass-through entity reporting requirements.
QUESTIONED COSTS	None
MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN	The Program accountant was instructed to convert the program financial reports obtained from our accounting software, from modified accrual basis, to cash basis, which is the required accounting basis by ACUDEN.

Implementation Date: December 31, 2016

Responsible Person: Mr. Ricardo Burgos Colón
Federal Programs Director

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
2014-007	Cash Management	14.228	14.871	No corrective action has been taken. Finding Reference 2015-008.
2014-008	Reporting	14.228	14.871	No corrective action has been taken. Finding Reference 2015-009.
2014-009	Eligibility	14.871	14.871	Full corrective action was taken.
2014-010	Reporting	14.871	14.871	No corrective action has been taken.
2014-011	Special Tests – Utility Allowance Schedule	14.871	14.871	Full corrective action was taken.
2014-012	Special Tests – Housing Quality Standards Inspections	14.871	14.871	Full corrective action was taken.
2014-013	Special Test-Rolling Forward Equity Balances	14.871	14.871	No corrective action has been taken.
2013-007	Allowable Activities-Housekeeping Services	14.228	None	During fiscal year 2014-2015 we did not have this activity.
2013-008	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 2015-008.
2013-010	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2015-009.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
2013-011	Eligibility	14.871	None	Full corrective action was taken.
2013-012	Reporting	14.871	None	No corrective action has been taken.
2013-013	Special Test-Rolling Forward Equity Balances	14.871	None	No corrective action has been taken.
12-III-08	Allowable Activities-Housekeeping Services	14.228	None	During fiscal year 2014-2015 we did not have this activity.
12-III-09	Cash Management	14.228	None	No corrective action has been taken. Finding Reference 2015-008.
12-III-12	Reporting	14.228	None	No corrective action has been taken. Finding Reference 2015-009.
12-III-13	Allowable Cost-Disbursement Process	14.871	None	The auditors did not identified during fiscal year 2014-2015 transactions related to this finding.
12-III-15	Eligibility	14.871	None	Full corrective action was taken.
12-III-16	Reporting	14.871	None	No corrective action has been taken.
12-III-20	Special Test-Rolling Forward Equity Balances	14.871	None	No corrective action has been taken.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
11-III-07	Allowable Activities- Housekeeping Services	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-08	Cash Management	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-11	Reporting	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-12	Allowable Cost- Disbursement Process	14.871	\$10,380	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-14	Eligibility	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
11-III-15	Reporting	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-20	Special Test-Rolling Forward Equity Balances	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
11-III-25	Procurement, Suspension and Debarment	93.713	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-06	Reporting- Fiscal Requirements	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-07	Reporting	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.

**MUNICIPALITY OF SANTA ISABEL,
COMMONWEALTH OF PUERTO RICO**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINDING NUMBER	COMPLIANCE	CFDA NUMBER	QUESTIONED COSTS	AUDITEE COMMENTS
10-09	Cash Management	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-11	Special Test- Housekeepers Project	14.228	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-12	Reporting- Fiscal Requirements	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
10-15	Eligibility	14.871	None	Finding no longer valid. The audit finding does not warrant further action because more than two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.