COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2017

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA

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INDEPENDENT AUDITORS' REPORT

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

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Vega Alta of the Commonwealth of Puerto Rico (the Municipality), as of and for the fiscal year ended June 30, 2017, and the related notes to the basic financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

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

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

Auditor's Responsibility (Continued)

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

Management does not present current pension expense because audited information form the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, was not available. Last year deferred outflows/inflows of resources and net pension liability in governmental activities of the governmental - wide statement of net position, were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

In our opinion, except for the effects of the matter described above in the "Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan" paragraph, the basic financial statements referred to above present fairly, all material respects, the respective financial position of the governmental activities of the Municipality as of June 30, 2017 and the respective changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the basic financial statements referred to above present fairly, all material respects, the respective financial position of each major funds and the aggregate remaining fund information of the Municipality, as of June 30, 2017 and the respective changes in the financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis - of - Matter

Newly Adopted Standards

As discussed in Note 1(V) to the basic financial statements, The Municipality adopted new guidance of the Governmental Accounting Standards Board (GASB) Statement No. 77 "Tax Abatement Disclosures" during fiscal year 2017. Our opinions are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 19 to the basic financial statements, the 2016 basic financial statements has restated for long terms debt and cash. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America requires that the management's discussion and analysis, budgetary comparison schedule of the general fund and related notes, and employees' retirement systems information, on pages 86, 87 and 88 through 90, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to Municipality, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information..

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements as a whole. The accompanying Financial Data Schedule - Section 8 Housing Choice Vouchers Program, as required by the U.S. Department of Housing and Urban Development, on pages 98 through 100, and the Schedule of Expenditures of Federal Awards and related notes, as required by as required by "Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards", on pages 94 through 95 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Other Supplementary Information (Continued)

The accompanying Financial Data Schedule - Section 8 Housing Choice Vouchers Program and the and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, Financial Data Schedule - Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2018, on our consideration of the Municipality's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

September 17, 2018

Stamp # E359201 of the
College of CPA's of
Puerto Rico is affixed
to the original.

This discussion and analysis of the **Municipality of Vega Alta** (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2017. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for the prior year as this information is available for the fiscal year ended on June 30, 2016. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;

2. acknowledgement of an overview of the Municipality's financial activities;

3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;

4. identification of uses of funds in the financing of the Municipality's variety of activities and;

5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2017 deserve special mention:

1. Total assets of the Municipality amounted to $71,479,395, which represents a decrease of 9 % when compared to the prior fiscal year. The decrease is mainly due to a decrease in account receivable and an increase in the accumulated depreciation in the amount of $2,924,153 and $3,915,443 respectively.

2. At the end of fiscal year 2017, total liabilities amounted to $61,954,741, representing a decrease of $4,640,798 or 7 % when compared to the prior fiscal year. Out of said amount, $54,884,577 corresponded to long-term liabilities of which $19,785,000 represents the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which were paid from self-generated revenues.

3. Total net position of the Municipality amounted to $10,456,691, which represents a decrease of $3,296,850 or 23% when compared to the prior fiscal year. The decrease in net position is mainly due to an increase in accumulated depreciation and a decrease in account receivable of $3,915,443 and $2,914,153 respectively.

4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $19,731,048 and are derived from the following sources: $369,571 charges for services; $2,320,110 from operating grants and contributions and $17,041,367 from available general revenues.

5. Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $23,027,898.

FINANCIAL HIGHLIGHTS (CONTINUED)

6. As reflected in the Statement of Activities, the current fiscal year operations contributed to a decrease in the net position by $3,296,850.

7. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of $14,162,322.

8. As of the end of the current fiscal year, the Municipality's General Fund balance increased in the amount of $191,319 or 10 % to $2,090,627 if compared to the prior year fund balance of $1,899,308.

9. The actual General Fund budgetary activities resulted in a favorable balance of $1,467,893 mainly due to aggressive revenue collections and tighter controls over expenditures.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2017. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

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

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

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

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2017, shows total expenses incurred to afford the cost of all functions and programs amounted to $23,027,898. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that $2,689,681 was derived from the following sources: $369,571 charges for services and $2,320,110 from operating grants and contribution. General revenues for the year amounted to $17,041,367. When such figure is added to the $2,689,681 previously mentioned, total revenues available for the financing of activities amounted to $19,731,048. There was an excess of expenses over revenues in the amount of $3,296,850 which contributed to a decrease in the figure of net position attained at the end of the fiscal year.

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

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

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

INFRASTRUCTURE ASSETS

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

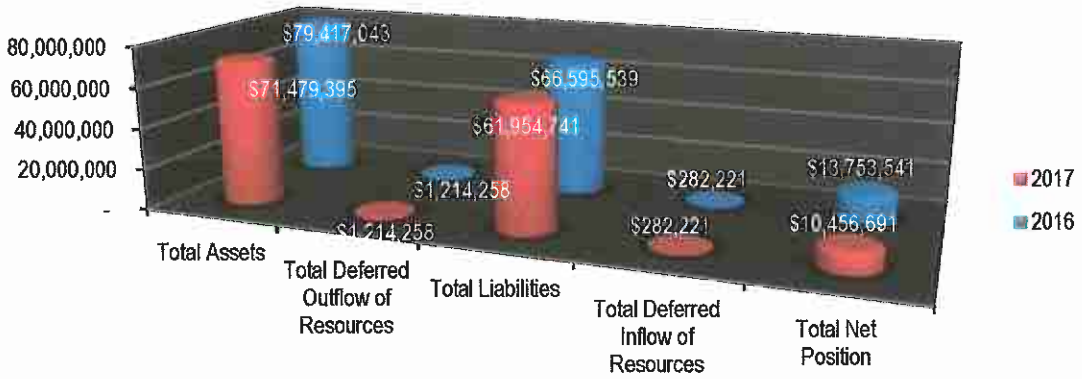
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Municipality of Vega Alta**, primary government assets exceeded total liabilities by $10,456,691 at the end of 2017, compared to $13,753,541 (as restated) at the end of the previous year as showed in the following condensed Statements of Net Position of the Primary Government.

Condensed Statements of Net Position	2017	2016	Change	%
Current and other assets	$20,400,823	$26,943,608	$(6,542,785)	(0.24)
Capital assets	51,078,572	52,473,435	(1,394,863)	(0.03)
Total assets	71,479,395	79,417,043	(7,937,648)	(0.10)
Total Deferred Outflow of Resources	1,214,258	1,214,258	-	-
Current and other liabilities	7,070,164	10,389,143	(2,166,343)	(0.32)
Long-term liabilities	54,884,577	56,206,396	(1,321,819)	(0.02)
Total liabilities	61,954,741	66,595,539	(3,488,162)	(0.05)
Total Deferred Inflow of Resources	282,221	282,221	-	-
Net investment in capital assets	38,992,454	33,267,117	5,149,019	0.15
Restricted	5,042,340	15,395,284	(9,776,626)	(0.66)
Unrestricted (deficit)	(33,578,103)	(34,908,860)	1,330,757	(0.04)
Total net position	$10,456,691	$13,753,541	$(3,296,850)	(0.24)



FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED

Changes In Net Position

The Statement of Activities reflects that, for the fiscal year 2017, total revenues derived from several programs plus current operating revenues, amounted to $19,731,048. Approximately 48% percent of the Municipality's total revenue came from taxes, while 32% percent resulted from grants and contributions, including federal aid. To properly present the basic financial statements the variance in Program Revenues is mainly due to the restatement and a reclassification between the real basic Property Tax ($5,115,822) and Grants and Contributions. Also in the Expenses Activities there were reclassifications between Public Safety, Sanitation and Environmental, Culture and Recreation and Public Housing and Welfare for the same purposes. The Municipality's expenses cover a range of services. The largest expenses were for general government with 65 % percent, and Public housing and welfare with 12.93% percent. The Net Position variance is mainly due to the restatement (see Note 1) of unrecorded transactions as of June 30, 2016. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Statements of Activities	2017	2016	Change	%
Program revenues:				
Charges for services	$369,571	-	$369,571	1.00
Operating grants and contributions	2,320,110	2,021,627	298,483	0.15
General revenues:				
Property taxes	5,186,536	11,025,110	(5,838,574)	(0.53)
Municipal license tax	2,224,167	2,595,297	(371,130)	(0.14)
Municipal sales and use tax	2,101,122	2,402,727	(301,605)	(0.13)
Grants and contributions not restricted to specific programs	6,324,669	2,099,932	4,224,737	201.18
Construction excise tax	276,725	-	276,725	1.00
Interest	251,896	585,308	(333,412)	(0.57)
Miscellaneous	676,252	1,026,615	(350,363)	(0.34)
Total revenues	$19,731,048	$21,756,616	$ (2,025,568)	(0.09)
Expenses:				
General government	15,013,909	14,797,031	216,878	0.01
Public safety	1,107,782	1,882,832	(775,050)	(0.41)
Sanitation and environmental	1,846,558	2,744,268	(897,710)	(0.33)
Culture and recreation	612,335	1,317,715	(705,380)	(0.54)
Public Housing and welfare	2,977,492	1,095,875	1,881,617	1.72
Interest on long-term debt	1,469,822	1,099,210	370,612	0.34
Total expenses	23,027,898	22,936,931	90,967	0.00
Change in net position	(3,296,850)	(1,180,315)	(2,116,535)	179.32
Net position, beginning, as restated	13,753,541	14,933,856	(1,180,315)	(0.08)
Net position, end of year	$ 10,456,691	$ 13,753,541	$ (3,296,850)	(0.24)

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $14,162,322, a decrease of $3,697,792 when compared to the prior year. There are restrictions of fund balance amounting to $12,239,566. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes $368,758 and 2) to pay debt services $2,842,453. There are committed fund balance amounting to $8,217,909 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purposes, $92,250 and; 2) to pay for capital projects, $8,125,659. There are assigned fund balances amounting to $810,446 that represent resources for specific purposes that do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor).

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2017, the general fund has an unassigned fund balance of $1,922,756 an increase of $191,319 or 10% if compared to the previous year.

As follows, a condense comparative of the balance sheet and statement of revenues, expenditures and changes in fund balances for the governmental funds. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

Condensed Balance Sheet - Governmental Funds

	2017	2016	Change	%
Total assets - Major Funds	$ 14,760,385	$ 18,276,567	$ (3,516,182)	(0.19)
Total assets - Nonmajor Funds	6,441,803	7,948,835	(1,507,032)	(0.19)
Total assets	21,202,188	26,225,402	(5,023,214)	(0.19)
Total liabilities - Major Funds	5,768,694	7,213,583	(1,444,889)	(0.20)
Total liabilities - Nonmajor Funds	1,271,172	1,151,705	119,467	0.10
Total liabilities	7,039,866	8,365,288	(1,325,422)	(0.16)
Fund Balances (as Restated) -Major Funds	8,991,691	11,062,984	(2,071,293)	(0.19)
Fund Balances (as Restated) - Nonmajor Funds	5,170,631	6,797,130	(1,626,499)	(0.24)
Total Net Position	$ 14,162,322	$ 17,860,114	$ (3,697,792)	(0.21)

Condensed Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

	2017	2016	Change	%
Total Revenues - Major Funds	$ 17,030,130	$ 17,279,734	$ (249,604)	(0.01)
Total Revenues - Nonmajor Funds	2,685,802	2,322,777	363,025	0.16
Total assets	19,715,932	19,602,511	113,421	0.01
Total expenditures - Major Funds	19,105,616	19,107,940	(2,324)	-
Total expenditures - Nonmajor Funds	4,308,108	5,549,851	(1,241,743)	(0.22)
Total liabilities	23,413,724	24,657,791	(1,244,067)	(0.05)
Other Financing Sources - Major Funds	587,998	3,073,424	(2,485,426)	(0.81)
Other Financing Uses- Major Funds	(583,805)	(4,047,030)	3,463,225	(0.86)
Other Financing Sources - Nonmajor Funds	0	1,405,721	(1,405,721)	(1.00)
Other Financing Uses - Nonmajor Funds	(4,193)	(432,115)	427,922	(0.99)
Total Other Financing sources (uses)	-	-	-	-
Revenues Over Expenses - Major	(2,071,293)	(1,828,206)	(243,087)	0.13
Revenues Over Expenses - Nonmajor	(1,626,499)	(3,227,074)	1,600,575	(0.50)
Total Net Position	$ (3,697,792)	$ (5,055,280)	$ 1,357,488	(0.27)

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Municipality Legislature revised the Municipality's budget in order to include increases in revenues that were identified during the course of the fiscal year based on current developments that positively affected the Municipality's finances. Increases in budgeted expenditures were also made since the law mandates a balanced budget.

The actual General Fund budgetary activities resulted in a favorable balance of $1,467,893 mainly due to aggressive revenue collection efforts and tight expenditures controls.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2017, amounts to $119,841,555 with an accumulated depreciation of $68,762,983 leaving a net book value of $51,078,572. Depreciation charges for the year totaled $3,980,071. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishings, computers, and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

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

Debt Administration

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

The applicable law also requires that, in order for a Municipality to be able to issue additional general obligation bonds and notes, such Municipality must have sufficient "payment capacity". Act No. 64 known as "Municipal Financing Law" provides that a municipality has sufficient "payment capacity" to incur in additional general obligation debt if the deposits in such Municipality's Redemption Fund and the annual amounts collected with respect to such Municipality's Special Additional Tax (as defined below), as projected by GDB, will be sufficient to service to maturity the Municipality's outstanding general obligation debt and the additional proposed general obligation debt ("Payment Capacity").

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues.

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

deemed reasonable and necessary to preserve the ability of the Commonwealth or an instrumentality of such to continue providing essential services. To that end, the Governor may issue executive orders establishing priority rules for the disbursement of public funds when resources available for a fiscal year are insufficient to cover the appropriations made for the fiscal year. Notwithstanding Section 4(c) of Act No. 147 of June 18, 1980, as amended, the Governor may reprioritize services and expenses described in Section 4(c)(3) to a higher payment priority than as listed in Section 4(c). Finally, the Governor may issue executive orders as he deems necessary or advisable to assure the payment of a debt obligation of the Commonwealth or an instrumentality of such.

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

Fiscal Plan Submissions and Certifications – Commonwealth of Puerto Rico and Government Development Bank for Puerto Rico

On a letter dated January 18, 2017, the Financial Oversight and Management Board of Puerto Rico ("the Board") provided the Governor the fiscal plan targets and guidelines, on a category-by-category basis, that the certified plan should satisfy. Also, the Board approved the Governor's request that it extend the PROMESA stay on litigation through May 1, 2017 on conditions agreed to by the Governor, including a commitment not to attempt to procure short-term liquidity loans that could restrict fiscal options. On February 28, 2017, the Governor submitted a proposed fiscal plan and, after the review, analysis and deliberation with the Board's members, economists, consultants, attorneys and Governor's representatives, the Board informed the Governor on March 9, 2017 that it had determined the proposed fiscal plan did not satisfy PROMESA's requirements and recommended that certain revisions be made. On March 11, 2017, the Governor submitted to the Board a revised proposed fiscal plan to address the identified violations in the prior plan and, during the review process; further changes were incorporated into the Government's

proposed plan. On March 13, 2017, the Governor's final proposed fiscal plan was presented to the Board and, after its review and discussion, the Board approved and certified this final plan with the following two (2) amendments:

- Implementation of a furlough program and the removal of all Christmas bonuses to achieve necessary liquidity and budgetary savings – The determination to implement these measures, in whole or in part, would be made on July 1 and September 1, 2017 based on the achievements by the Commonwealth of certain levels of savings and cash reserves through the right-sizing measures to be implemented in the proposed budget for the fiscal year 2017-18.

- An overhaul of the public pension systems that would provide for progressively reduced total pension outlays by 10% by fiscal year 2020.

The fiscal measures detailed in the certified fiscal plan were implemented by the approval on April 29, 2017 of Act 29 *"Compliance with the Fiscal Plan Act".* These measures are focused on four (4) major areas:

- Increase revenues by $1,380 million through tax and fees increases and better tax fiscalization procedures
- Reduce expenditures by $1,623 million through 1) $434 million in payroll expenditure savings through the implementation of the "Single Employer Program" (an employee mobility plan), "freezing" of job vacancies
  and the uniformity of fringe benefits throughout the agencies (these measures do not apply to the University of Puerto Rico nor the Municipalities); 2) $439 million in efficiency savings though agencies consolidations, expenditure reductions and public-private alliances; 3) $750 million in subsidies reductions to the University of Puerto Rico, Municipalities, and other entities
- Adjustments of $299 million in Health expenditures through the implementation of a new public healthcare model
- An 80% reduction on debt service payments.

On March 13, 2017, the Government Development Bank for Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly winding-down of its operations within a three-to-four years' period (by fiscal year 2021).To efficiently effectuate this process, the GDB's management has created a Project Management Office ("PMO") for the smooth transition of the Bank's current operations. The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities will have ceased
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be "nonperforming" (i.e. Commonwealth's appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans.

Filing of Title III of PROMESA for the District of Puerto Rico

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico approved and certified the filing in the United States District Court for the District of Puerto Rico of a voluntary petition under Title III of PROMESA for the Commonwealth of Puerto Rico. This filling was necessary due to the expiration on May 1, 2017 of the stay against litigation provided by PROMESA, and thus making the government vulnerable to lawsuits by its creditors. The voluntary filing under Title III would preclude those lawsuits while allowing the possibility of consensual negotiations to continue. Also, on May 5, 2017 another voluntary petition under Title III of PROMESA was approved, certified and filed for the Puerto Rico Sales Tax Financing Corporation ("COFINA"), and on May 22, 2017, the Board approved, certified and filed similar voluntary petitions for the Puerto Rico Highway and Transportation Authority ("HTA") and the Government of Puerto Rico Employees Retirement System ("ERS").

Restructuring Support Agreement ("RSA") under the provisions of Title VI of PROMESA – Government Development Bank of Puerto Rico

On May 15, 2017, FAFAA and the Government Development Bank for Puerto Rico announced a Restructuring Support Agreement ("RSA") with a significant portion of GDB's financial creditors, which became effective pursuant to its terms on May 17, 2017. The RSA contemplates dividing GDB's assets into two separate entities: one for the benefit of its financial creditors consisting of bondholders, municipal depositors and non-government entity depositors ("New Issuer"), and a Public Entity Trust ("PET") for the benefit of other depositors (government entity depositors). The RSA terms are to be consummated pursuant to a consensual restructuring of the GDB's liabilities using a Title VI Qualifying Modification. Once approved by the requisite financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB's stakeholders a recovery based on the claim type.

Prior to the closing of the RSA transaction, the GDB seeks to 1) adjust loan balances based on undisbursed municipal loan proceeds against the corresponding loans; and 2) provide an accelerated setoff of public entity deposits to non-performing loans, where applicable. As of June 30, 2017, the Municipality bonds and notes escrow balances amounted to $5,163,734, against an outstanding principal debt balances, related to GDB debt issuance, of $19,785,000.

On June 30, 2017, the GDB submitted a revised Fiscal Plan to the Financial Oversight and Management Board incorporating the RSA framework and was approved by the entity on July 12, 2017. On July 14, 2017, the Board authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement ("RSA") under the relevant provisions of Title VI. The RSA provides for the organized and consensual restructuring of a substantial portion of the GDB's liabilities, including GDB public bonds, deposit claims by Municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees ("Participating Bond Claims"). In exchange for releasing the GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the "New Issuer").

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

In order to secure and service the new bonds, the GDB will transfer to the New Issuer its entire municipal loan portfolio, certain real estate assets available for sale, proceeds of certain public entity loans and a certain amount of cash. For each $1,000 of Participating Bond Claims held by a Holder, such holder shall receive New Bonds having a face amount equal to $550 (a 55% upfront exchange ratio). Payments of principal and interest to holders of the New Bonds shall be made solely from available cash of the issuer, with a coupon rate of 7.50% and a maturity period ending on July 1, 2040. The New Bonds will be secured by a statutory lien on the New Bond collateral.

In relation to GDB's municipal obligation, the principal amount of any bond, note and/or loan of any municipality of Puerto Rico held by the GDB as of the RSA's closing date shall be automatically reduced by operation of law, effective as of the closing date, without the need for any further action, by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit a GDB on the closing date pursuant to the Municipality Financing Act, Act 64-1996, as amended. Such application shall be effected by reducing any remaining installments of principal in inverse order of maturity and shall not otherwise affect the repayment schedule of the corresponding bond, note or loan.

If a municipality that has Excess CAE, as defined in the GDB Restructuring Act as in effect on August 24, 2017, executes a settlement agreement with GDB providing a release of all claims and causes of action against GDB and the Issuer and agreeing not to challenge or otherwise take any action that is inconsistent with, or that would reasonably be expected to prevent, interfere with, delay or impede the consummation of, the Restructuring, then, promptly upon the effective date of such settlement agreement, if so provided pursuant to an amendment to the GDB Restructuring Act, GDB shall pay, in cash, to such municipality an amount equal to 55% of the undisbursed Excess CAE corresponding to such Municipality. In the case of municipalities that do not execute a settlement agreement with the GDB prior to the Closing Date, pursuant to Article 502 of the GDB Restructuring Act, as in effect on August 24, 2017, the GDB shall pay to such municipalities on the Closing Date, in cash, an amount equal to 55% of the undisbursed Excess CAE corresponding to such municipalities. The remaining portion of the municipalities' undisbursed Excess CAE (45%) shall be discharged and the municipalities shall have no further rights or claims thereto and the GDB shall have no further liability or obligation to the municipalities in respect of the Excess CAE.

Any remaining municipal deposits held at GDB as of the Closing Date shall be reduced, effective as of Closing Date, on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan, relative to the type of corresponding deposit: CAE deposits against CAE loans; IVU deposits against IVU loans; and all undesignated deposits against outstanding principal balance of other loans in the following order: operational loans, revenue loans, IVU loans, then CAE loans. Such applications shall be affected in ascending order of outstanding loans balance. In cases where deposits are not enough to pay a loan in full, the application shall be effected by reducing installments of principal in inverse order of maturity without affecting the repayment schedule of the bond, note or loan. The remaining balances of the municipal loans shall be those certified by FAFAA, and all future payments of interest on such bonds, notes and/or loans shall by computed based on such balances.

The RSA already has the support of 51% of the Participating Bond Claims. According to FAFAA, as of June 21, 2017, 394 individual parties, holding more than $2.45 billion in claims against GDB, have signed the RSA, the vast majority of which constitute on-island creditors. More than 300 on-island bondholders and an additional 50 on-island credit unions have entered into the RSA. The RSA is also supported by the Ad Hoc Group of GDB bondholders, which holds more than $1 billion of GDB public bonds. Under the RSA, Puerto Rico Municipality Depositors and on-island GDB bondholders are treated equally with off-island GDB bondholders, all as general unsecured creditors. Initially, the GDB will service the New Bond Collateral ("NBC"); after a transition period, a qualified and independent asset manager will service the NBC and an independent collateral monitor will monitor the assets. The Municipality of Vega Alta has not yet signed the RSA. As of June 30, 2017, the Municipality's deposits maintained at GDB (including bonds and notes escrow accounts) amounted to $9,028,202.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (CONTINUED)

Hurricanes Irma (DR-4336) and María (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Alta, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost $3.9 million dollars in public assistance grants have been obligated. Under this disaster, the Municipality of Vega Alta has received public assistance grants in the amount of $4,235.87.

Just two weeks after Hurricane Irma, on September 20, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately $508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses. As of today, six months after the incident, there are still many areas without energy and water service.

The City Halls of many municipalities suffered structural damages forcing them to relocate to their Centers for Emergency Operations (CEOs); and, as of today, there are still municipalities that have not been able to return to their administrative offices. One of the most significant damages experimented is the mold and bacterial contamination of their buildings, documents and archives due to water filtrations that occurred during and after the passing of these hurricanes. This contamination has required the municipalities to enter in the process of hiring cleaning companies specialized in this type of event and this process has taken a significant period of time. The Municipality of Vega Alta returned to their City Hall on December 2017. Under this disaster, the Municipality has estimated damages in the amount of $2,562,725 for Categories A and B. As of today, the Municipality have submitted FEMA documentation of the expenditures incurred in the amount of $ 1,024,198 and received public assistance grants for the amount of $751,265.67. Currently the Municipality of Vega Alta is assessing the estimates of the damages for the Categories C thru G. Based on preliminary findings we estimate that the damages for Categories C thru G are in the amount of $22,707,942. As of today, the Municipality has claimed the preliminary amount of $22,707,942 to the insurance company for the damages suffered to our infrastructure and buildings, etc. This amount may vary as some of the estimates are in the progress. The Municipality hired a private recovery adjusters to ascertain that all damages are properly claimed to the insurance company. As of today, we have received the amount of $1,293,121 from the insurance company.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA), the U.S. Congress and the President for the assignment of federal assistance of approximately $2.6 billion, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico.

FINAL COMMENTS

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

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

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors, and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, please contact the Municipality's Chief Financial Officer at P.O. Box 1390, Vega Alta Puerto Rico.

Statement of Net Position
June 30,2017

	Governmental Activities
Current Assets:	
Unrestrited cash and cash equivalents	$ 4,976,426
Due from:	
Commonwealth government	147,116
Federal grants	16,763
Total current assets	5,140,305
Noncurrent Assets:	
Capital assets	
Land, improvements, and construction in progress	25,352,187
Other capital assets, net of depreciation	25,726,385
Total capital assets	51,078,572
Temporarily restricted cash and cash equivalents	15,260,518
Total noncurrent assets	66,339,090
Total assets	71,479,395
Deferred Outflows of Resources:	
Contributions to Employees' Retirement System	1,214,258
Total deferred outflows of resources	1,214,258
Current Liabilities:	
Accounts payable and accrued liabilities	1,697,649
Due to other governmental entities	497,600
Escrow accounts	3,373
Deposits	21,923
Unearned revenues:	
Municipal license tax	1,596,636
Federal grant revenues	76,716
Interest payable	330,488
Total current liabilities	4,224,385
Noncurrent liabilities:	
Due within one year	2,845,779
Due in more than one year	54,884,577
Total noncurrent liabilities	57,730,356
Total liabilities	61,954,741
Deferred Inflows of Resources:	
Unamortized Investments in Employees' Retirement System	282,221
Total deferred inflows of resources	282,221
Net Position:	
Net investment in capital assets	38,992,454
Restricted for:	
Debt service	4,841,453
Other purposes	200,887
Unrestricted (deficit)	(33,578,103)
Total net position	$ 10,456,691

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:					
General government	$ 15,013,909	$ 54,283	$ 353,238	$ -	$ (14,606,388)
Public safety	1,107,782	-	-	-	(1,107,782)
Sanitation and environmental	1,846,558	-	-	-	(1,846,558)
Culture and recreation	612,335	315,288	-	-	(297,047)
Public housing and welfare	2,977,492	-	1,966,872	-	(1,010,620)
Interest on long-term debt	1,469,822	-	-	-	(1,469,822)
Total governmental activities	$ 23,027,898	$ 369,571	$ 2,320,110	$ -	(20,338,217)

General revenues:	
Property taxes	5,186,536
Municipal license tax	2,224,167
Municipal sales and use tax	2,101,122
Grants and contributions not restricted to specific programs	6,324,669
Construction excise tax	276,725
Interest	251,896
Miscellaneous	676,252
Total general revenues	17,041,367
Change in net position	(3,296,850)
Net position - beginning, as restated	13,753,541
Net position - ending	$ 10,456,691

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

Balance Sheet-Governmental Funds
June 30, 2017

	General Fund	Debt Service Fund	Mantenimiento Obras Municipales Fund	$6,120,000 Loan Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Unrestricted cash and cash equivalents	$ 3,592,782	$ -	$ -	$ -	$ 1,383,644	$ 4,976,426
Intergovernmental receivables:						
Commonwealth government	116,586	8,207			22,323	147,116
Federal government					16,763	16,763
Due from other funds	801,365					801,365
Temporarily restricted cash and cash equivalents	168,631	5,163,734	1,044,612	3,864,468	5,019,073	15,260,518
Total assets	$ 4,679,364	$ 5,171,941	$ 1,044,612	$ 3,864,468	$ 6,441,803	$ 21,202,188
Liabilities, deferred inflows of resources and fund balances						
Liabilities:						
Accounts payable and accrued liabilities	472,578		$ 133,772	233,248	858,051	1,697,649
Due to other funds				483,449	317,916	801,365
Intergovernmental	497,600					497,600
Escrow accounts					3,373	3,373
Deposits	21,923					21,923
Unearned Revenues	1,596,636				76,716	1,673,352
Bonds, notes and interest		2,329,488				2,329,488
Total liabilities	2,588,737	2,329,488	133,772	716,697	1,256,056	7,024,750
Deferred inflows of resources						
Deferred Inflow of Resources	-	-	-	-	15,116	15,116
Total deferred inflows of resources	-	-	-	-	15,116	15,116
Fund balances:						
Restricted:						
Debt Services Reserve		2,842,453				2,842,453
Other Purposes	167,871				200,887	368,758
Committed			910,840	3,147,771	4,159,298	8,217,909
Assigned					810,446	810,446
Unassigned	1,922,756					1,922,756
Total fund balances	2,090,627	2,842,453	910,840	3,147,771	5,170,631	14,162,322
Total liabilities, deferred inflows of resources and fund balances	$ 4,679,364	$ 5,171,941	$ 1,044,612	$ 3,864,468	$ 6,441,803	$ 21,202,188

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

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds		$ 14,162,322
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. In the current period, these amounts are:		
Non-depreciable capital assets	$ 25,352,187	
Depreciable capital assets	94,489,368	
Accumulated depreciation	(68,762,983)	
Total Capital Assets		51,078,572
Deferred outflows of resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds:		1,214,258
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Federal Government:		
Municipal Affairs Commissioners' Office (OCAM):		
Community Development Block Grants - State's Grants	12,751	
Federal Transit Administration	2,365	
		15,116
Deferred inflows of resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds:		(282,221)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	(17,786,000)	
Property tax - Law 146	(156,430)	
Property tax - Advances	(196,700)	
Net pension Liability	(35,266,944)	
Compensated Absences	(1,748,964)	
Christmas bonus	(376,318)	
Claims and judgements	(200,000)	
Total Long-Term Liabilities		(55,731,356)
Total Net Position of Governmental Activities		$ 10,456,691

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Debt Service Fund	Mantenimiento Obras Municipales Fund	$6,120,000 Loan Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Property Taxes	$ 3,508,578	$ 1,677,958	$ -	$ -	$ -	$ 5,186,536
Municipal license taxes	2,224,167					2,224,167
Municipal Sales taxes	1,419,141	681,981				2,101,122
Licenses, permits, fines and charge for services	1,436,262				168,132	1,604,394
Intergovernmental revenues	5,204,299				412,264	5,616,563
Federal grants and contributions	-				1,830,007	1,830,007
Interest	187,513	2,138		224,995	62,245	476,891
Rent	223,064				147,156	370,220
Other Revenues	240,034				65,998	306,032
Total revenues	14,443,058	2,362,077	-	224,995	2,685,802	19,715,932
Expenditures						
Current:						
General government	9,107,083				1,035,666	10,142,749
Highway and Urban Development	-				1,069,050	1,069,050
Public safety	1,020,888				74,151	1,095,039
Sanitation and Enviromental	2,851,521				1,141	2,852,662
Culture and recreation	524,841				88,816	613,657
Public housing and welfare	28,968				1,204,845	1,233,813
Capital outlays	138,826		1,776,338	551,817	834,439	3,301,420
Debt service:						
Principal		1,966,000				1,966,000
Interest	-	1,139,334		-		1,139,334
Total expenditures	13,672,127	3,105,334	1,776,338	551,817	4,308,108	23,413,724
Excess (deficiency) of revenues over (under) expenditures	770,931	(743,257)	(1,776,338)	(326,822)	(1,622,306)	(3,697,792)
Other financing sources (uses)						
Proceeds from bonds						
Operating transfer-in from other funds	4,193	583,805				587,998
Operating transfer-out to other funds	(583,805)				(4,193)	(587,998)
Total other financing sources (uses)	(579,612)	583,805	-	-	(4,193)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	191,319	(159,452)	(1,776,338)	(326,822)	(1,626,499)	(3,697,792)
Fund balances, beginning as restated	1,899,308	3,001,905	2,687,178	3,474,593	6,797,130	17,860,114
Fund balances, ending	$ 2,090,627	$ 2,842,453	$ 910,840	$ 3,147,771	$ 5,170,631	$ 14,162,322

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds		$ (3,697,792)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Expenditures for capital assets	$ 2,875,993	
Less: current-year depreciation	(3,980,071)	(1,104,078)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Due from Federal Government:		
Municipal Affairs Commissioners' Office (OCAM):		
Community Development Block Grants - State's Grants	12,751	
Federal Transit Administration	2,365	15,116
Disposal of capital assets require removal of cost of the capital assets from the capital asset account on the Government-Wide Statement of Net Position, resulting in a loss on disposal of capital assets on the Government-Wide Statement of Activities.		(290,785)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		(370,000)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	2,336,000	
Other long-term liabilities	530,952	2,866,952
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Property tax - Advances	(196,700)	
Compensated absences	(202,006)	
Accrued interest-net change	(317,557)	(716,263)
Change in Net Position of Governmental Activities		$ (3,296,850)

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Municipality of Vega Alta** (the Municipality) was founded on the year 1775 and operates as a governmental unit of the Commonwealth of Puerto Rico, under Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico. The Municipality's governmental system consists of an executive and legislature body. It is governed by a Mayor and fourteen-member Municipal Legislature, who are elected for a four-year term.

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

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

A. Financial reporting entity

The financial reporting entity included in this report consists of the basic financial statements of the **Municipality of Vega Alta** (primary government) and organizations for which the primary government is financially accountable. A primary government is any state government or general purpose local government (i.e. a municipality). All funds, organizations, institutions, agencies, departments and offices that are not legally separate are, for financial reporting purposes, part of a primary government. If an organization is part of a primary government, its financial information should be included with that of the primary government. Component units are legally separate organizations for which the primary government is financial accountable or organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete. A component unit can be a governmental organization, a nonprofit corporation or a for-profit entity.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, Reporting Entity and Component Unit Presentation and Disclosure, requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, Defining the Financial Reporting Entity, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes.
A primary government's financial accountability for a legally separate organization is determined based on the following criteria:

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

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

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

Also, as indicated above, it would be necessary to include other organizations as component units if their exclusion would cause the financial statements of the primary government to be misleading or incomplete.

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

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

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

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

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

Legally separate organizations that do not meet the financial accountability requirement or the above "special criteria" should still be included as a component unit if the financial statements of the primary government would be misleading or incomplete without them.

GASB Statement 61, The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34, provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

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

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

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

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

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

4. The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21-37 of Statement No.14, *The Financial Reporting Entity*, as amended.

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

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

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

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

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

Required Supplementary Information - Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities which is similar to the analysis the private sector companies provide in their annual reports.

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

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

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

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

the provider have been met. For certain expenditure-driven grants, revenue is recognized after allowable expenditures are incurred

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

Governmental Fund Financial Statements (GFFS)

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

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type. At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

(a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type; and,

(b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The Municipality reports the following major governmental funds:

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

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

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

Mantenimiento de Obras Municipales – This fund is used to account for and report financial resources that are committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities.

$6,120M Loan – This fund is used to account for and report financial resources, financed by a general obligation bond proceed, that are committed expenditure for capital outlays, including the acquisition or construction of major capital facilities.

The Municipality also reports nonmajor governmental funds in a single column, which includes the following:

Special Revenue Funds: this type of fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The core revenue source of the fund must represent a substantial portion of the fund's total inflows. The limitation on spending (specific purpose) may be imposed by external parties (creditors, grantors, contributors, other governments), by constitutional provisions, by enabling legislation or by action taken by the government's own highest level of decision-making authority.

Capital Projects Funds: this type of fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital projects. Typically, the fund is not used for routine or minor capital outlays (equipment, vehicles, furniture, among others) which are reported instead in the fund from which financial resources were expended. Rather, the fund is used primarily for major projects and acquisitions financed with borrowed or contributed resources. The use of a capital project fund frequently is required by debt covenants, grant contracts, laws or regulations.

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

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

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

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

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

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability and the Schedule of Municipality Contributions as required by GASB Statement No.68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27.

C. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Municipality's general fund is the only governmental fund for which an annual budget is legally adopted. The Municipality's elected Mayor is legally required to prepare and submit to the elected Municipal Legislature an annual balanced budget for the ensuing fiscal year. The annual budget is prepared by the Municipality's Department of Finance, and takes into consideration the advice provided by all municipal departments and divisions. The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year, unless the imposition of taxes sufficient to cover said appropriations is provided by law.

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other financing resources of the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) municipal legislative measures proposed by the Mayor and submitted with the proposed budget, as well as the Mayor' recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year governmental plan adopted by the Municipality.

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

The Municipal Legislature may amend the budget 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. Upon approval by the Municipal Legislature, the budget is referred to the Mayor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections.

If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP. Accordingly, for budgetary purposes the Municipality uses encumbrance accounting. The encumbrances (principally purchase orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The encumbered balance of any appropriation of the general fund at the end of the fiscal year will lapse to the following fiscal year. In addition, the Municipal Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual department or division of the Municipality. However, the Municipality is statutorily required to satisfy the debt service requirements, regardless of whether such amounts are appropriated or not.

Appropriations are enacted for certain departments and divisions. Appropriations for capital projects are made for each bond/note issue and the authorization continues for the expected construction period.

The Municipality's Finance Department has the responsibility to ensure that budgetary spending control is maintained on an individual department/division basis. The Finance Department may transfer part or all of any encumbered balance within a department to another department subject to approval. Budgetary control is exercised through the Municipality's accounting system. This system ensures that encumbrances or expenditures are not processed if they exceed the department/division's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for the general fund expenditures, principal and interest due for the year for the debt service fund, and by bond/note authorization for capital expenditures.

D. **Cash deposits and investments**

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

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

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

E. **Restricted assets**

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law. Restricted cash in governmental bank in the general fund consists of cash restricted for the Irmo Figueroa Reserve Fund. Restricted cash in commercial and governmental banks in the debt service fund consists of the undisbursed balance of some of the property and sales and use tax collections retained by the CRIM and the Commonwealth of Puerto Rico, respectively, which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash in $6,120,000 loan fund and other governmental funds represents the undisbursed proceeds of certain bonds, loans or grants which are maintained in cash escrow accounts at GDB.

F. **Receivables and due from governmental entities**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the General Fund represent property taxes of the current fiscal year collected by the Municipal Revenues Collection Center ("CRIM") in the subsequent fiscal year; sales and use taxes of the current fiscal year transferred by the GDB after year end; and reimbursements owed by state agencies for expenditures incurred during the current fiscal year. Amounts reported in the Debt Service Fund represent property and sales and use tax revenues of the current fiscal year collected by the CRIM ("CAE" Redemption Fund) and the GDB (Municipal Redemption Fund), respectively, on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the Other Governmental Funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

G. **Inter-fund transactions**

The Municipality reports the following inter-fund transactions in the FFS:

Inter-fund-loans:	Represent legally advances that are representative of lending/borrowing arrangements from one fund to other fund to finance payroll, payroll taxes and other expenditures. The current portion of such transactions are referred as to either "due from/to other funds" and the noncurrent portion as "advances to/from other funds". Amounts not expected to be collected within a reasonable period of time are reduced to the estimated realizable value and amounts not expected to be repaid are reported as "transfer-out" from the lender fund and "transfer-in" in the borrower fund.
Inter-fund transfers:	Represent legally flows of assets without equivalent flows of assets in return and without a requirement for repayment. These are reported as "transfers-out" (other financing uses) in the fund that issue the transfers and as "transfers-in" (other financing sources) in the fund receiving the transfers.
Inter-fund reimbursements:	Represent repayment from a fund responsible for particular expenditures or expenses to the fund that initially finances them.

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

H. Inventories

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

I. Capital assets

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the governmental-wide financial statements. The Municipality defines capital assets as assets with an initial individual cost of more than $25 and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value/entry price (the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date).

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

All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

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

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress.

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

J. Long-term obligations

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

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

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

K. Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, it arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

L. Compensated absences

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

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

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

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

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, Compensated Absences, the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees.

M. Claims and judgments

In the GWFS, the liability and expense amounts for judgments and claims are recorded as incurred or when a loss is probable and the amount reasonably estimated. In the FFS, amounts are recorded as liabilities and expenditures in the General Fund when they mature (when payment is due).

N. Accounting for pension costs

The Municipality accounts for pension costs in accordance with the requirements of **GASB Statement No. 68** *"Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27"* as a participant employer of the retirement plans administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). Accordingly, pension costs are reported based on its proportional share of the collective net pension liability, pension expense and deferred outflows/inflows of resources reported by the Plan.

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

For purposes of measuring, (1) the net pension liability, (2) deferred outflows of resources related to pensions, (3) deferred inflows of resources related to pensions, (4) pension expense, (5) information about the pension plan's fiduciary net position and (6) additions to/deductions from the plan's fiduciary net position all have been determined on the same basis as they are reported by the Plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Municipality's employer contributions are recognized when due and when the Municipality has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value. In the governmental fund statements pension expenditure is equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions. See also **Note 16**.

O. Deferred outflows/inflows of resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, Elements of Financial Statements, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," the Municipality recognizes deferred outflows and inflows of resources.

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

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

In the government-wide Statement of Net Position, the Municipality reports deferred outflows/inflows of resources that result from the following transactions:

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

2. **Implementation of GASB Statement No. 68 *"Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27"* and GASB Statement No. 71 *"Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68"*** – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

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

In the governmental funds Balance Sheet, the Municipality reports deferred inflows of resources that result from the following transactions:

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

2. **Unavailable revenue reported under the modified-accrual basis of accounting** – Amounts are recognized as *unavailable revenue* from the following sources: property taxes, sales and use taxes and intergovernmental revenues collected or to be collected after the availability period. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the GFFS.

P. Net position

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

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

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

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

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

Q. Net position flow assumption

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

R. Fund balances

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

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

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

Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance

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

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

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

general fund) only if: 1) such resources meet the other criteria for those classifications, as described above and 2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely. However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balances amounts as of for the fiscal year ended June 30, 2017.

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

S. Fund balance flow assumptions

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

T. Risk financing

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company through withholdings from property tax advances issued by CRIM.

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

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the Municipal Revenue Collection Center (CRIM) for the year ended June 30, 2017 amounted to $233,170.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Commonwealth of Puerto Rico'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 work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid directly to DOL on a cost reimbursement basis.

U. Use of Estimates

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

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

V. **Adoption of new accounting pronouncements – GASB Statements No. 74, 77, 78, 80 and 82**

Effective July 1, 2016, the Municipality adopted the provisions of the following GASB Statements:

1. **GASB Statement No. 74 *"Financial Reporting for Postemployment Benefit Plans Other Than Pensions."*** 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 replaces Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*", as amended, Statement 43, and Statement No. 50, "*Pension Disclosures*".

2. **GASB Statement No. 77 *"Tax Abatement Disclosures."*** Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires 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. See **Note 17** for more information on the municipality's implementation.

3. **GASB Statement No. 78 *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans."*** 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. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

4. **GASB Statement No. 80 *"Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14".*** The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, "*The Financial Reporting Entity*", as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments.

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

The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member

The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*".

5. GASB Statement No. 82 ***"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73".*** The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, "*Financial Reporting for Pension Plans*", No. 68, "*Accounting and Financial Reporting for Pensions*", and 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"*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. 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 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.

The implementation of these Statements has no significant impact on the Municipality's financial statements for the fiscal year ended June 30, 2017.

W. Future adoption of accounting pronouncements

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

1. GASB Statement No. 75 ***"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."*** 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 replaces the requirements of Statements No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).

2. GASB Statement No. 81 ***"Irrevocable Split-Interest Agreements".*** 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. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 (fiscal year ended June 30, 2018), and should be applied retroactively.

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

3. **GASB Statement No. 83 *"Certain Asset Retirement Obligations".*** This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

   This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (fiscal year ended June 30, 2019).

4. **GASB Statement No. 84 *"Fiduciary Activities".*** The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (June 30, 2020).

5. **GASB Statement No. 85 *"Omnibus 2017".*** The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (June 30, 2019).

6. **GASB Statement No. 86 *"Certain Debt Extinguishment Issues".*** The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial

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

statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (June 30, 2019).

7. **GASB Statement No. 87 *"Leases"*.** The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

   The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (June 30, 2021). Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

8. **GASB Statement No. 88 "Certain Disclosures related to debt, including direct borrowings and direct placements".** The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (June 30, 2019). Earlier application is encouraged.

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

9. **GASB Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period".** The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. In financial statements prepared using the economic resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest cost should not be capitalized as part of the historical cost of a capital asset. In financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

X. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

Y. Subsequent events

Subsequent events have been evaluated through XXXXXXX, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2017. See also **Note 20**.

2. CASH AND CASH EQUIVALENTS

The Municipality maintains its deposits in various commercial banks located in Puerto Rico and in the Government Development Bank for Puerto Rico (GDB). Proceeds from bonds and funds related to certain grant awards are required by law to be held with GDB. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly, the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure (the risk than an issuer or other counterparty to an investment will not fulfill its obligations) may be significant.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of insurance provided by the Federal Deposit Insurance Corporation (FDIC) (up to $250,000). All securities pledged as collateral by the Municipality are held by agents designated by the Puerto Rico Secretary of Treasury, but not in the Municipality's name.

As of June 30, 2017, the bank balance of deposits in commercial banks amounting to $9,527,669 were covered by the FDIC and by pledged securities.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits in governmental banks, all of which are uninsured and uncollaterized, are exposed to custodial credit risk. As of June 30, 2017, the Municipality's bank balance of its deposits with the GDB amounts to $10,709,275, which is distributed as follows:

Description	Bank Balance Amount
Unspent proceeds of general and special obligation bonds and notes	$ 7,907,940
Unspent balance of the property taxes collections deposited in the "CAE Redemption Fund" and restricted for the repayment of the Municipality's general and special obligation bonds and notes	2,617,842
Unspent balance of the sales and use taxes collections deposited in the "Municipal Redemption Fund" and restricted for the repayment of the Municipality's special obligation bonds and notes and unspent balance of sales and use taxes excess deposited in an investment account	171,085
Unspent balance of the CRIM advances retentions deposited in the"Operational Loan Fund" and restricted for the repayment of the Municipality's operational bonds and notes	12,408
Total	$10,709,275

Cash in GDB - On January 18, 2017, the Commonwealth of Puerto Rico approved Act No. 2 *"The Puerto Rico Fiscal Agency and Advisory Authority (FAFAA)"* in order to empower the Authority to oversee compliance with the certified budget and fiscal plan approved pursuant to the Puerto Rico Oversight, Management and Economic Stability Act of 2016 (PROMESA) and to delegate to the Authority the power to revise matters including, but not limited to, agreements, transactions and regulations of the agencies and instrumentalities of the Government of Puerto Rico. Among other things, it shall be the only entity authorized to enter into creditors' agreement, and/or renegotiate or restructure the public debt, in whole or in part, or any other debt issued by any Government body including, but not limited to, agencies, boards, commissions, instrumentalities, public corporations or applicable political subdivision. In addition, the FAFAA shall assume all fiscal agency, financial advisory and reporting functions of the GDB under Act No. 272 of May 15, 1945, as amended. It shall oversee all matters related to the restructuring, renegotiation or adjustment of any existing or future obligation, and the liability management transactions for any existing or future obligation of the Government of Puerto Rico.

On January 29, 2017, the Commonwealth of Puerto Rico approved Act No. 5 *"Puerto Rico Financial Emergency and Fiscal Responsibility Act"* to facilitate and encourage a voluntary negotiation process under PROMESA between the Governor and/or the FAFAA, on behalf of the Government of Puerto Rico, and the creditors of the Government of Puerto Rico and its instrumentalities.

This Act Authorizes the Government of Puerto Rico, within the parameters established by PROMESA, to designate certain services necessary for the health, safety and welfare of the residents of Puerto Rico and provided by the Government of Puerto Rico and its instrumentalities as "essential services", in accordance with the Constitution of Puerto Rico. This Act amends and repeals portions of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act No. 21-2016, as amended by Act No. 40-2016 and Act No. 68-2016 (the "Moratorium Act") and of certain Executive Orders issued by then Governor of Puerto Rico Hon. Alejandro García Padilla that provided for emergency periods and a temporary stay of litigation.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

With regards to the emergency measures related to the Government Development Bank (GDB), the Governor may take any actions he deems reasonable and necessary to permit the GDB to continue carrying out its operations, including 1) prescribing such conditions or restrictions for the conduct of the business of the GDB, including dispensing with the compliance, in whole or in part, of any requirement prescribed by otherwise applicable law (i.e. the requirement of maintaining deposit reserves levels); 2) ordering the limitation, postponement or suspension of any payment, in whole or in part, of any obligation pursuant to terms the Governor prescribes to address the GDB's liquidity needs or facilitate its ability to carry out its operations; 3) suspending payments on any obligation guaranteed by the Bank, on any letter of credit and on any obligation or commitment to lend or extend money or credit; 4) taking any action with respect to the GDB as provided for in Act No. 17 of September 23, 1948, as amended, or Act No. 22 of July 24, 1985, as amended, as applicable; and 5) delegating to the Bank, its Board or its employees authority to take actions in furtherance of these emergency measures.

If any restriction is placed on disbursements made by the GDB regarding these measures, the Bank shall not, without the authorization of the Governor, 1) disburse any loans or credit facility; 2) honor requests to withdraw or transfer any deposit, including by check or other means, of an agency, public corporation or instrumentality of the Commonwealth (other than those listed in point three (3)); 3) subject to the availability of funds and the aggregate disbursements established by the Governor, honor any request to withdraw or transfer any deposit held by, or request to honor any check written by, the Legislative and Judicial Branches, the University of Puerto Rico, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel, or a Municipality of the Commonwealth, provided, however, than an authorized officer of the requesting entity certifies along with supporting documentation that such funds will be used for the payment of essential services. If any restriction is placed on disbursements from the GDB, then any value disbursed to a creditor after such restriction is imposed shall be subtracted from the value of any distribution that such creditor is entitled to receive, as of the first date of the restriction, if the GDB is subsequently liquidated or placed into a receivership.

On March 13, 2017, the Government Development Bank of Puerto Rico submitted its proposed fiscal plan to the Financial Oversight and Management Board and it was certified on April 28, 2017. This plan contemplates an orderly wind down of its operations within a three-to-four years' period (by fiscal year 2021). The main objectives of this fiscal plan are as follows:

- All fundamental new business banking and origination activities have ceased
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions
- Coordinate and execute all possible collection efforts on loans held by the GDB and collateral supporting the loans, when applicable
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value
- Restructure the GDB's workforce through the "Single Employer Program" and voluntary incentivized separation program.

The Plan assumes that Municipality Loans, select Revenue/Public Corporation Loans and the sale of real estate owned assets are the only sources of revenue to the GDB after June 30, 2017. Those loan assets deemed by the Bank to be "nonperforming" (i.e. Commonwealth's appropriation loans) will remain as such and, therefore, would not be a source of future inflows, although the GDB reserves the right to pursue collection efforts to maximize recovery values. In respect to municipal escrow deposit accounts (monies representing undisbursed loan proceeds that were trapped at GDB as a result of restricted disbursement procedures and Executive Order 2016-10), the Plan assumes that their balances will be off set against their applicable municipal loans.

On May 15, 2017, FAFAA and the GDB announced a Restructuring Support Agreement ("RSA") with a significant portion of the Bank's financial creditors, which became effective pursuant to its terms on May 17, 2017. The RSA contemplates dividing GDB's assets into two separate entities: one for the benefit of its financial creditors consisting of bondholders, municipal depositors and non-government entity depositors ("New Issuer"), and a Public Entity Trust ("PET") for the benefit of other depositors (government entity depositors). The RSA terms are to be consummated pursuant to a consensual restructuring of the GDB's liabilities using a

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Title VI Qualifying Modification. Once approved by the requisite number of financial creditors of the GDB, the Financial Oversight and Management Board and the U.S. District Court (Puerto Rico), the RSA will provide GDB's stakeholders a recovery based on the claim type.

Prior to the closing of the RSA transaction, the GDB seeks to 1) adjust loan balances based on undisbursed municipal loan proceeds against the corresponding loans; and 2) provide an accelerated setoff of public entity deposits to non-performing loans, where applicable. As of June 30, 2017, the Municipality bonds and notes escrow balances amounted to $10,709,275, against an outstanding principal debt balances of $19,785,000.

On June 30, 2017, the GDB submitted a revised Fiscal Plan to the Financial Oversight and Management Board incorporating the RSA framework and was approved by the entity on July 12, 2017. On July 14, 2017, the Board authorized the GDB to pursue the restructuring of its debts under Title VI of PROMESA and conditionally certified GDB's Restructuring Support Agreement ("RSA") under the relevant provisions of Title VI. As indicated earlier, the RSA provides for the organized and consensual restructuring of a substantial portion of the GDB's liabilities, including GDB public bonds, deposit claims by Municipalities and certain non-public entities and claims under certain GDB-issued letters of credit and guarantees ("Participating Bond Claims"). In exchange for releasing the GDB from liability relating to these claims, the claim-holders will receive new bonds to be issued by a new entity (the "New Issuer").

In order to secure and service the new bonds, the GDB will transfer to the New Issuer its entire municipal loan portfolio, certain real estate assets available for sale, proceeds of certain public entity loans and a certain amount of cash. For each $1,000 of Participating Bond Claims held by a Holder, such holder shall receive New Bonds having a face amount equal to $550 (a 55% upfront exchange ratio). Payments of principal and interest to holder of New Bonds shall be made solely from available cash of the issuer, with a coupon rate of 7.50% and a maturity period ending on July 1, 2040. The New bonds will be secured by a statutory lien on the New Bond collateral.

In relation to GDB's municipal obligation, the principal amount of any bond, note and/or loan of any municipality of Puerto Rico held by the GDB as of the RSA's closing date shall be automatically reduced by operation of law, effective as of the closing date, without the need for any further action, by an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit a GDB on the closing date pursuant to the Municipality Financing Act, Act 64-1996, as amended. Such application shall be effected by reducing any remaining installments of principal in inverse order of maturity and shall not otherwise affect the repayment schedule of the corresponding bond, note or loan.

If a municipality that has Excess CAE, as defined in the GDB Restructuring ACT as in effect on August 24, 2017, executes a settlement agreement with GDB providing a release of all claims and causes of action against GDB and the Issuer and agreeing not to challenge or otherwise take any action that is inconsistent with, or that would reasonably be expected to prevent, interfere with, delay or impede the consummation of, the Restructuring, then, promptly upon the effective date of such settlement agreement, if so provided pursuant to an amendment to the GDB Restructuring Act, GDB shall pay, in cash, to such municipality an amount equal to 55% of the undisbursed Excess CAE corresponding to such Municipality. In the case of municipalities that do not execute a settlement agreement with the GDB prior to the Closing Date, pursuant to Article 502 of the GDB Restructuring Act, as in effect on August 24, 2017, the GDB shall pay to such municipalities on the Closing Date, in cash, an amount equal to 55% of the undisbursed Excess CAE corresponding to such municipalities.

The remaining portion of the municipalities' undisbursed Excess CAE (45%) shall be discharged and the municipalities shall have no further rights or claims thereto and the GDB shall have no further liability or obligation to the municipalities in respect of the Excess CAE.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Any remaining municipal deposits held at GDB as of the Closing Date shall be reduced, effective as of Closing Date, on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan, relative to the type of corresponding deposit: CAE deposits against CAE loans; IVU deposits against IVU loans; and all undesignated deposits against outstanding principal balance of other loans in the following order: operational loans, revenue loans, IVU loans, then CAE loans. Such applications shall be affected in ascending order of outstanding loans balance. In cases where deposits are not enough to pay a loan in full, the application shall be effected by reducing installments of principal in inverse order of maturity without affecting the repayment schedule of the bond, note or loan. The remaining balances of the municipal loans shall be those certified by FAFAA, and all future payments of interest on such bonds, notes and/or loans shall by computed based on such balances.

The RSA already has the support of 51% of the Participating Bond Claims. According to FAFAA, as of June 21, 2017, 394 individual parties, holding more than $2.45 billion in claims against GDB, had signed the RSA, the vast majority of which constitute on-island creditors. More than 300 on-island bondholders and an additional 50 on-island credit unions have entered into the RSA. The RSA is also supported by the Ad Hoc Group of GDB bondholders, which holds more than $1 billion of GDB public bonds. Under the RSA, Puerto Rico Municipality Depositors and on-island GDB bondholders are treated equally with off-island GDB bondholders, all as general unsecured creditors. Initially, the GDB will service the New Bond Collateral ("NBC"); after a transition period, a qualified and independent asset manager will service the NBC and an independent collateral monitor will monitor the assets.

Due to the GDB's fiscal which contemplates a ceasing of its operations within three to four years and the conditional approval of the RSA, the deposits maintain at the GDB are exposed to a significant custodial credit risk. However, no impairment loss has been calculated since all the Municipality's deposits at the GDB will be offset against the principal balances of the Municipality's outstanding general and special obligation bonds and notes.

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 or equity investments in its investments portfolio at June 30, 2016, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates.

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.

3. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2017 are as follows:

	Commonwealth Government	Federal Government
Major fund – General fund:		
Municipal Finance Corporation (COFIM)-sales and use taxes	$ 116,586	$ -
Major fund – Debt service fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	8,207	-
Other Governmental Funds-Special Revenue Fund - State Grants:		
PR Department of Labor and Human Resources- Law 52	22.307	-
Others	16	-
Other Governmental Funds – Special Revenue Fund-Other Federal Grants:		
Commonwealth of PR Office of the Commissioner of Municipal Affairs-Community Development Block Grants-States' Grants	-	12,752
Federal Transit Administration	-	2,365
Supportive Housing Program	-	1,646
Total	**$ 147,116**	**$ 16,763**

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related **Note 9**.

B. Amounts due to governmental entities as of June 30, 2017 are as follows:

Governmental Entity	Amount
PR Aqueduct & Sewer Authority	$ 165,486
Retirement System Administration	93,286
PR Telephone Company	5,784
Commonwealth of Puerto Rico Employees' Association	30,400
Municipal Revenue Collection Center (CRIM)	202,644
Total	**$ 497,600**

4. INTERFUND TRANSACTIONS

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds" (i.e., current portion of interfund loans).

a. Due from/to other funds:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	$6,120,000 Loan Fund	Reimbursable Expenditures	$ 483,449
General Fund	Other Governmental Funds	Reimbursable Expenditures	317,916
Total			**$ 801,365**

b. Transfer in/out to other fund

Transfer out	Transfer in	Purpose	Amount
General Fund	Debt Service Fund	Debt retirement	$ 583,805
Other Governmental	General Fund	Reimbursable expenditures	4,193
Total			**$ 587,998**

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017 are summarized as follows:

Description	General Fund	Mantenimiento Obras Municipales Fund	$6,120,000 Loan Fund	Other Governmental Funds	Total
Accounts payable	$ 426,555	$ 133,772	$ 233,248	$ 858,051	$ 1,651,626
Accrued liabilities	46,023	-	-	-	46,023
Total	**$ 472,578**	**$ 133,772**	**$ 233,248**	**$ 858,051**	**$ 1,697,649**

6. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2017 are detailed as follows:

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2016-2017 that correspond to the 2017-2018 fiscal year budget	$ 1,596,636
Other Governmental Funds:	
Federal grants received for which qualifying expenditures have not been incurred:	
Housing Choice Voucher Program – Portabilities	50,969
Housing Assistance for Persons with AIDS (HOPWA)	25,747
Total	**$ 1,673,352**

7. CAPITAL ASSETS

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of $25 or more, are primarily funded through the issuance of long-term bonds and loans. A summary of capital assets and changes occurring in 2017, including those changes pursuant to the implementation of GASB Statement No. 34, follows. Land and construction in progress are not subject to depreciation:

Governmental Activities:	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 19,055,910	$ 27,119	$ -	$ 19,083,029
Construction in progress	4,769,626	1,790,075	(290,543)	6,269,158
Total capital assets not being depreciated	23,825,536	1,817,194	(290,543)	25,352,187
Capital assets, being depreciated:				
Buildings, structure and building improvements	37,774,391	230,275	-	38,004,666
Infrastructure	39,993,445	750,807	-	40,744,252
Licensed Vehicles	10,810,012	29,280	-	10,839,292
Machinery and Equipment	4,917,591	48,437	(64,870)	4,901,158
Total cost basis of capital assets subject to depreciation and amortization	93,495,439	1,058,799	(64,870)	94,489,368
Less accumulated depreciation for:				
Buildings, structure and building improvements	(13,427,250)	(892,891)	-	(14,320,141)
Infrastructure	(36,400,847)	(2,878,243)	-	(39,279,090)
Licensed Vehicles	(10,151,250)	(169,480)	-	(10,320,730)
Machinery and Equipment	(4,868,193)	(39,457)	64,628	(4,843,022)
Total accumulated depreciation	(64,847,540)	(3,980,071)	64,628	(68,762,983)
Total capital assets being depreciated, net	28,647,899	(2,921,272)	(242)	25,726,385
Governmental activities capital assets, net	**$ 52,473,435**	**($ 1,104,078)**	**($ 290,785)**	**$ 51,078,572**

7. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	$ 3,756,541
Public Safety	13,182
Public works	159,078
Culture and recreation	194
Health and welfare	35
Community development	51,041
Total depreciation and amortization expense	**$ 3,980,071**

8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, was as follows:

Description	Beginning Balance	Additions or Adjustments	Payments or Deductions	Ending Balance	Due Within One Year
General and special obligations bonds and notes	$ 22,121,000	$ -	$ (2,336,000)	$ 19,785,000	$ 1,999,000
Notes payable to CRIM:					
Financing of delinquent accounts (Law No. 146)	166,880	-	(10,450)	156,430	10,450
Property tax - Advances	-	196,700	-	196,700	130,011
Net Pension Liability	35,266,944	-	-	35,266,944	-
Christmas bonus	376,318			376,318	376,318
Claims and Judgements	200,000			200,000	200,000
Compensated absences	2,067,460	202,006	(520,502)	1,748,964	130,000
Total	$ 60,198,602	$ 398,706	($2,866,952)	$57,730,356	$ 2,845,779

A. **Legal debt margin** – The Municipality is subject to a legal debt margin requirement, which is equal to 10% of the total assessment of property located within the Municipality plus balance of the ad valorem taxes in the debt service fund, for bonds payable to be repaid with the proceeds of property taxes restricted for debt service. In addition, before any new bonds are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. Long-term debt, except for the bonds and notes payable, is paid with unrestricted funds.

B. **Bonds and notes payable** – The Municipality issues general and special obligation bonds and notes principally to provide funds for the acquisition and construction of major capital facilities. Bonds and notes payable outstanding at June 30, 2017 are as follows:

8. LONG-TERM LIABILITIES (CONTINUED)

	Balance at June 30, 2017
1995 General obligation bond, original issued amount of $990,000 due in annual principal installments ranging from $15,000 to $90,000; plus interest due in semiannually installments at rates from 6.58% to 6.63% through July 1, 2019.	$ 250,000
1995 General obligation bond, original issued amount of $3,425,000 due in annual principal installments ranging from $40,000 to $295,000; plus interest due in semiannually installments at rates from 6.58% to 6.63% through July 1, 2020.	1,060,000
1997 General obligation bond, original issued amount of 610,000 due in annual principal installments ranging from $10,000 to $60,000; plus interest due in semiannually installments at rates from 6.41% to 6.56% through July 1, 2021.	235,000
2000 General obligation bond, original issued amount of $135,000 due in annual principal installments ranging from $5,000 to $10,000; plus interest due in semiannually installments at rates from 5.01% to 5.60% through July 1, 2024.	50,000
2000 General obligation bond, original issued amount of $230,000 due in annual principal installments ranging from $5,000 to $20,000; plus interest due in annual installments at rates from 3.50% to 8.00% through July 1, 2025.	135,000
2002 General obligation bond, original issued amount of $500,000 due in annual principal installments ranging from $10,000 to $50,000; plus interest due in annual installments at rates from 5.01% to 5.39% through July 1, 2021.	205,000
2003 General obligation bond, original issued amount of $1,235,000 due in annual principal installments ranging from $20,000 to $95,000; plus interest due in semiannually installments at rates from 4.66% to 5.02% through July 1, 2028.	830,000
2003 Operational bond, original issued amount of $2,585,000 due in annual principal installments ranging from $40,000 to $200,000; plus interest due in semiannually installments at rates from 3.50% to 6.50% through July 1, 2028.	1,525,000
1995 Public improvements bond, issued amount of $4,735,000 due in annual principal installments ranging from $50,000 to $295,000; plus interest due in semiannually installments at rates of 7.75% through July 1, 2020.	840,000
2007 General obligation bond, original issued amount of $1,300,000 due in annual principal installments ranging from $30,000 to $120,000; plus interest due in semiannually installments at rates from 3.00% to 7.50% through July 1, 2027.	935,000
2008 General obligation bond, original issued amount of $995,000 due in annual principal installments ranging from $15,000 to $90,000; plus interest due in semiannually installments at rates from 3.00% to 7.50% through July 1, 2032.	815,000
2010 General obligation bond, original issued amount of $3,930,000 due in annual principal installments ranging from $150,000 to $415,000; plus interest due in semiannually installments at rates from 6.50% to 7.50% through July 1, 2024.	2,615,000
2010 General obligation bond, original issued amount of $2,225,000 due in annual principal installments ranging from $85,000 to $235,000; plus interest installments at rates from 6.50% to 7.25% through July 1, 2024.	1,470,000

8. LONG-TERM LIABILITIES (CONTINUED)

	Balance at June 30, 2017
2011 General obligation bond, original issued amount of $1,755,000 due in annual principal installments ranging from $65,000 to $185,000; plus interest due in semiannually installments at rates from 6.50% to 7.50% through July 1, 2025.	1,270,000
2014 General obligation bond, original issued amount of $2,450,000 due in annual principal installments ranging from $120,000 to $285,000; plus interest due in semiannually installments at rates from 6.50% to 7.50% through July 1, 2026.	2,070,000
2014 General obligation bond, original issued amount of $6,120,000 due in annual principal installments ranging from $295,000 to $700,000; plus interest due in semiannually installments at rates from 6.00% to 7.50% through July 1, 2026.	5,170,000
2014 General obligation bond, original issued amount of $630,000 due in annual principal installments ranging from $70,000 to $110,000; plus interest installments at rates from 6.50% to 8.00% through July 1, 2020	310,000
Total	**$19,785,000**

These bonds, except the 1995 Series $4,735,000 bond, the 2003 Series $2,585,000 bond and the 2014 Series $630,000 and $6,120,000 bonds, are payable from the special ad valorem property tax of 1.85%, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. The 1995 Series $4,735,000, the 2003 Series $2,585,000 and the 2014 Series $630,000 bonds are payable with General Fund resources. In addition, the Series 2014, amounting $6,120,000 is payable with the revenues generated from the collection of the .0002% of the municipal sales and use taxes redemption fund.

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

Year Ending June 30, 2017	Principal	Interest
2018	$1,999,000	$ 1,237,004
2019	2,138,000	1,210,456
2020	2,308,000	1,053,260
2021	2,005,000	890,914
2022-2026	6,830,000	1,841,237
2027-2031	3,640,000	755,583
2032-2036	865,000	39,187
Total	**$ 19,785,000**	**$ 7,027,641**

As fully described in **Note 2**, the Municipality expects to be part of the implementation of GDB's amended Fiscal Plan and accordingly, be subject to the restructuring process pursuant to the amended RSA. As a result, prior to the closing of the restructuring, GDB will reduce any bond, note and/or loan balances by (1) an amount equal to the balance of proceeds of such bond, note and/or loan that were not disbursed to such municipality and were held on deposit at GDB on the Closing Date and by (2) any remaining municipal deposits held at GDB as of the Closing Date on a dollar-for-dollar basis, from the outstanding principal amount of any corresponding bond, note and/or loan. The restructuring transaction is expected to be completed by June 30, 2018.

8. LONG-TERM LIABILITIES (CONTINUED)

C. **Property taxes debt - Law No. 146 and Property tax advance** - These amounts represents the balance owed to the Municipal Revenue Collection Center ("CRIM") at June 30, 2017 as described in **Note 12**.

D. **Compensated absences** – The government-wide Statement of Net Position includes $1,748,964 of accrued sick leave and accrued vacations benefits, representing the Municipality's commitment to fund such costs from future operations.

E. **Christmas bonus** – represents the accrued portion corresponding to the fiscal year 2017 of the Christmas bonus to be paid in December 2017.

F. **Claims and Judgements** - This amount represents the balance related to legal claims at June 30, 2017, as described in **Note 18**.

9. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

	Federal Government
Other governmental funds:	
Commonwealth of PR Office of the Commissioner of Municipal Affairs – Community Development Block Grant-States' Grants	$ 12,751
Federal Transit Administration	2,365
Total	**$ 15,116**

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Municipality has one item that are reportable on the Government-wide Statement of Net Position that is relates to outflows from changes in the net pension liability (**Note 16**); the inflow of resources related to the benefit payments are reported as Advances from Grantors and Third Parties.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds Balance Sheet report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the basic financial statements were as follows:

Governmental Activities:

Deferred Outflows of Resources:

Contribution to ERS $ 1,214,258

Deferred Inflows of Resources:

Unamortized Investments in ERS 282,221

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property, the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2017 are 6.68% for personal property and 8.68% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	1.85%	1.85%
Total tax rate:	6.88%	8.88%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**6.68%**	**8.68%**

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

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

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long-term debt. The Municipality has an amount payable of $196,700 resulting from the final settlement of fiscal year 2016, $130,010 and $66,690 from final settlement of fiscal year 2017, recorded as other long-term debt in the Statement of Net Position.

Law No. 42 of January 26, 2000 (as amended by Law No. 146 of October 11, 2001 and Law No. 172 of August 11, 2002) was enacted to authorize the CRIM to obtain a special loan in the form of a line of credit from the Governmental Development Bank for Puerto Rico (GDB) to finance a debt the municipalities of Puerto Rico owe to the CRIM for excess property tax advances as of June 30, 2000. Principal and interest payments are financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Amounts are retained from advances of property tax and amounts of municipal equalization fund sent to the Municipality by the CRIM. Law No.42 was amended by Law No. 146 to extend from 10 to 30 years the financing period and by Law No. 172 to extend the debt period to June 30, 2001. As of June 30, 2017, the balance due to CRIM was $156,430.

13. MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2017, the tax rates were as follows:

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $1,596,636 are recorded as unearned revenues.

14. SALES AND USE TAXES

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

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 SUT 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 SUT. As stated by Section 4050, the Municipalities may use the SUT 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 SUT from 1.5% to 1% and increases the Commonwealth's SUT 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.

14. SALES AND USE TAXES (CONTINUED)

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from SUT 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, 2015, the 6% corresponding to the Commonwealth's SUT 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 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.

To the extent the amount of Commonwealth SUT collections available for deposit into the FAM during any fiscal year is less than the amount attributable to 0.5% of the Commonwealth SUT for such fiscal year, the Commonwealth's General Fund is required to cover any such shortfall.

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

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

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

After July 1, 2015, 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 (Original RFA) and thereafter, it will be the RFA of the preceding fiscal period plus 1.5% of such RFA. The RFA for the 2016-17 fiscal year is $67,522,266. The excess amount of 1%

14. SALES AND USE TAXES (CONTINUED

municipal SUT remaining after the required deposit to the COFIM's sinking fund (the "COFIM 1% Municipal Transfer") is transferred to the general fund of the municipalities or to the Municipal Redemption Fund as decided by each municipality. Before the COFIM 1% Municipal Transfer is made to the municipalities covered by the Act, COFIM will transfer the 1% municipal SUT 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 COFIM 1% Municipal Transfer. Each month, the GDB will make the FDM, FRM and COFIM 1% sales and use tax transfers based on the amounts collected that same month in the preceding fiscal year (2015-16). At the end of the year, a settlement will be made comparing the actual collections of the FDM, FRM and the COFIM 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 pro rata deductions from the next fiscal year cash advances.

For the year ended June 30, 2017, the Municipality recorded as revenue in the general fund $1,419,141 which corresponds to the COFIM 1% Municipal Transfers. The debt service fund reported $681,981 corresponding to the IVU FAM Municipal Redemption Fund and the Municipal Development Fund.

15. INTERGOVERNMENTAL REVENUES - GENERAL FUND

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

	Amount
Amount of municipal subsidies and equalization fund sent by CRIM	$ 5,115,828
Reimbursement from the P.R. Department of Treasury of the Christmas Bonus expenditure	88,471
Total	**$ 5,204,299**

15. INTERGOVERNMENTAL REVENUES - GENERAL FUND

B. Licenses, permits, fines and charge for services revenues in the general fund are comprised of the following:

	Amount
Other Revenues	181,520
Medical Services	129,822
Recycling	3,946
Permits	11,165
Waste disposal	7,710
Fines	35,408
Total	**$ 369,571**

16. PENSION PLAN

General description

The Municipality is a participating employer in a retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covered all regular full-time public employees working for the executive and legislative branches of the Commonwealth and the municipalities of Puerto Rico (including mayors); the firefighters and police of Puerto Rico and employees of certain public corporations not having their own retirement systems. Prior to July 1, 2013, the system operated under the following benefits structures:

- Act No. 447 of May 15, 1951 ("Act 447") effective on January 1, 1952 for members hired up to March 31, 1990,
- Act No. 1 of February 16, 1990 ("Act 1") for members hired on or after April 1, 1990 and ending on or before December 31, 1999,
- Act No. 305 of September 24, 1999 (which amended Act 447 and Act 1) for members hired from January 1, 2000 up to June 3, 2013.

Employees under Act 447 and Act 1 are participants of a cost-sharing multiple employer defined benefit plan. Act 305 members are participants under a pension program known as System 2000, a hybrid defined contribution plan. Under System 2000, there was a pool of pension assets invested by the System, together with those of the current defined benefit plan. Benefits at retirement age were not guaranteed by the Commonwealth and were subjected to the total accumulated balance of the savings account.

Effective on July 1, 2013, Act No. 3 of 2013 ("Act 3") amends the provisions of the different benefits structures under the ERS. Act 3 moves all participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) to a new defined contribution hybrid plan. Contributions are maintained by each participant in individual accounts. Credits to the individual accounts include: (1) retirement benefits accrued and savings account balances under the provisions of Act 447, Act 1 and System 2000 as of June 30, 2013; (2) contributions made by all members of ERS after June 30, 2013; and, (3) the investment yield for each semester of the fiscal year.

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16. PENSION PLAN (CONTINUED)

Participant of the Program

Shall mean, until June 30, 2013, every person for whom the Administrator maintains an account under the Retirement Savings Account Program pursuant to the provisions of Chapter 3 of Act No. 447. Beginning on July 1, 2013, it shall mean every person for whom the Administrator maintains an account under the Defined Contribution Hybrid Program pursuant to the provisions of Chapter 5 of this Act.

The membership of the System shall be constituted by every person who holds a regular position as a career, trust, temporary employee or with probationary personnel status in any executive department, agency, administration, board, commission, office, or instrumentality of the Executive Branch, by the Justices of the Peace, the regular employees and officials of the Judiciary Branch, and by all regular officials and employees of the municipalities, including the mayors. Temporary municipal employees shall not participate in the Retirement System.

Membership in the Retirement System shall be optional for the Governor of Puerto Rico, for all the Secretaries of Government, heads of public agencies and instrumentalities, the Governor's aides, the members of commissions and boards appointed by the Governor, the members of the Legislative Assembly of Puerto Rico, for the employees and officials of the Legislative Assembly of Puerto Rico, the Office of Legislative Services and the office of the Superintendent of the Capitol, and the Comptroller of Puerto Rico. These officials may, at any time, request to be discharged from, or readmitted into the System. The period of services rendered to the Government while separated from the System, shall be credited as creditable service, provided said officials pay the individual and employer contributions, plus interest, that correspond to the period of separation, to the system.

As of July 1, 2013, every employee who is a participant of the System, including mayors, regardless of the date when he/she was first appointed to the Government of the Commonwealth of Puerto Rico, its instrumentalities, municipalities or participating employers of the System, shall become part of the Defined Contribution Hybrid Program.

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

As per Act No. 3, retirement shall be optional for new participants joining the System for the first time after April 1, 1990, as of the date in which they reach the age of sixty-five (65), have completed a minimum of ten (10) years of accredited services and have not requested or received the reimbursement from the accrued contributions. The amount of the annuity shall be one point five percent (1.5%) of the average compensation multiplied by the years of accredited services. However, a minimum pension of five hundred dollars ($500) per month, effective July 1, 2013, is hereby fixed for those participants who retired in accordance with the provisions of this Chapter 2. Every pensioner who receives a pension of less than five hundred dollars ($500) per month shall receive, effective July 1, 2013, the increase required for his/her pension to be five hundred dollars ($500)

16. PENSION PLAN (CONTINUED)

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

Benefits provided

Eligibility for retirement: Act 3 establish the following retirement eligibility requirements: (1) Act 447 regular employees upon attaining a range between 59 to 61 years (depending of date of birth) and 10 years of creditable service, (2) Act 1 employees upon attaining 55 years with 30 years of creditable service, (3) System 2000 regular employees upon attaining a range between 61 to 65 years (depending of date of birth) and, (4) Act 3 employees hired after July 1, 2013 upon reaching 67 years. High risk employees (state and municipal police, firefighters and custody officials) under Act 447 and Act 1 will be eligible at 55 years with 30 years of creditable service, for System 2000 employees at 55 years of service and for Act 1 employees hired after July 1, 2013 upon reaching 58 years.

Accrued benefits: All members are entitled to a lifetime annuity based on the balance of the deferred contribution individual account at the time of the retirement calculated based on a factor that will incorporate the individual's life expectancy and a rate of return. For Act 447 and Act 1 active participants, all retirement benefits accrued through June 30, 2013 were frozen, and thereafter, all future benefits accrue under Act 3 plan.

These participants will receive a pension at retirement age equivalent to what they have accrued under Act 447 and Act 1 up to June 30, 2013 plus the lifetime annuity corresponding to contributions made to the individual account after July 1, 2013 as described above. Act 447 participants, except police and mayors, may elect to coordinate coverage with Social Security benefits ("Coordinated plan"). Under this option, participants are subject to a benefit recalculation upon attainment of the Social Security Retirement Age. For all members, if the balance of the defined contribution individual account is less than $10,000 the amount shall be paid as a lump sum instead of an annuity. Effective July 1, 2013, the minimum monthly pension amount for members who retired or disabled before July 1, 2013 is $500.

16. PENSION PLAN (CONTINUED)

Termination benefit: Members are eligible to a lump sum payment of the defined contribution individual account as of the date of the permanent separation of service upon termination of service prior to 5 years of service or if the balance of the defined contribution individual account is less than $10,000.

Deferred retirement: Members are eligible at the applicable retirement eligibility age to a lifetime annuity based on the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) upon termination of service with 5 or more years of service (10 years of creditable service for Act 447 and Act1 members) but prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal from the defined contribution individual account.

Death benefits: For non-retired members, their designated beneficiaries will receive a refund of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members). For pensioned members retired prior to June 30, 2013, the annual income to a widow or widower or dependent children is equal to 60% of the retirement benefit payable for life for a surviving spouse or disabled children and payable until age 18 or age 25 if pursuing studies for non-disabled children. For pensioned members retired after June 30, 2013, payments to beneficiaries will be the excess, if any, of the balance of the deferred contribution individual account plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) over the total annuity payments paid to the member and any beneficiaries.

Disability benefits: Members who are permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be entitled to the balance of the deferred contribution individual account in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant, plus the accrued benefit as of June 30, 2013 (for Act 447 and Act 1 members) at the applicable retirement eligibility age. Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

A disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Office of the Commissioner of Insurance of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the participant.

Special laws and pensioner additional benefits: The Municipality is required to cover other retirement benefits of its retired employees (if retired prior to July 1, 2013) as required by Commonwealth's laws, including: (1) various special laws – ad-hoc cost of living allowance adjustments (COLA) provided in prior years; (2) various special laws –additional minimum pension benefits and, (3) Act 3 retired pensioners "Additional Benefits Program". All of these other retirement benefits are applicable only to employees who retired prior to July 1, 2013 under Act 447 and Act 1. The "Additional Benefits Program" includes: (1) a medication bonus of $100 per member which shall be paid no later than July 15 of each year; (2) a Christmas bonus of $200 per member which shall be paid no later than December 20 of each year and, (3) a matching share of $1,200 for healthcare insurance plan. These healthcare benefits are provided through insurance companies whose premiums are paid by the retired employees with the matching share financed by the Municipality.

16. PENSION PLAN (CONTINUED)

Pension Computation

When the participant meets the age and service requirements established above, he/she shall be entitled to receive an annuity computed on the basis of years of service accrued as of June 30, 2013, in accordance with the following rules:

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

Beginning on July 1, 2013, participants shall not accrue any more years of service for the determination of the average salary and computation of a pension under Section 5-103(a)(4). In addition, participants may not have services not credited recognized, contributions transferred or returned for periods worked before June 30, 2013, except for those exceptions specifically established in Act No 447

Those participants who began to work on or after January 1, 2000, or those who as of June 30, 2013, were participants in the Retirement Savings Program and who as of June 30, 2013, could retire from service because they are sixty (60) years old, may retire on any later date and they shall be entitled to receive the annuity that could be acquired with the balance of the contributions under the Retirement Savings Account Program and those accrued under the Defined Contribution Hybrid Program.

The savings accounts under the Retirement Savings Account Program of employees who joined the System for the first time on or after January 1, 2000, shall be rolled over to the Defined Contribution Hybrid Program. Be it provided that if, as of June 30, 2013, the employees have not reached the age of sixty (60), they shall be entitled to the annuity established in Section 5-110 of Act No. 447 when they meet the following age requirements:

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

16. PENSION PLAN (CONTINUED)

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

For Public Officers in High-Risk Positions who began to work after December 31, 1999, and who, as of June 30, 2013, are not 55 years old, retirement shall be optional when they reach 55 years of age.

Funding Policy

The authority under which the funding policy and the obligations to contribute to the ERS and System 2000 by the plans' members, employers and other contributing entities (state of municipal contributions), are established or may be amended by law.

Contributions

The Act No. 3 is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Contribution rates are not actuarially determined.

Members: All participants are required to contribute 10% of gross salary. Members may voluntarily make additional contributions to their defined contribution individual account.

Payroll-based employer contribution: The Municipality contributed 15.525% of gross salary for fiscal year 2016-2017. Act 3 requires an additional 1.25% annually for each of the following four years, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The Municipality contributed $564,804 during fiscal year 2016-2017. These amounts represented the 100% of the required contribution for the corresponding year.

Additional Uniform Contribution: To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of 2013, which amended Act 447 to provide for an Additional Uniform Contribution ("AUC"). The AUC will be financed by all participating employers (including the Municipality) of the ERS. Beginning with the 2014-2015 until the 2032-2033 fiscal year, the AUC will be the uniform contribution certified by the external actuary of the ERS at least 120 days prior to the start of each fiscal year, as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1,000,000,000.

The ERS will determine the amount of AUC to be billed and paid by each employer during each fiscal year. Commonwealth laws provide for a subsidy of the AUC obligation, applicable to all participating employers (including the Municipality) of the ERS that the Puerto Rico Office of Management and Budget ("OMB") determines do not have financial capability to pay the AUC obligation. Office of Management and Budget ("OMB") determines do not have financial capability to pay the AUC obligation. For fiscal year 2016-2017, the Municipality recorded $663,408 as expenditure in the general fund.

Disability insurance: As described above, a disability benefits program is established which shall provide a temporary annuity in the event of total and permanent disability. All members shall mandatorily contribute to a disability insurance established by Act 3 for which participants shall have to contribute such sums, fixed in dollars or a percent of the salary determined by the ERS. The contribution required is equal to or less than .25% of the participant's salary. This contribution shall not be credited to the participant's deferred contribution individual account.

16. PENSION PLAN (CONTINUED)

Special laws and pensioner additional benefits: These other retirement benefits are funded on a pay-as-you-go basis and billed by ERS to the Municipality at the beginning of each fiscal year. As required by Act 3, the invoice includes a supplemental contribution of $2,000 per pensioner to finance the Additional Benefits Program. Commonwealth laws provide for a subsidy of this obligation, applicable to all participating employers (including the Municipality) of the ERS that the Puerto Rico Office of Management and Budget ("OMB") determines do not have financial capability to pay these other retirement benefits obligations. For the fiscal year 2016-2017, the Municipality recorded $262,498 as expenditure in the general fund.

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, 2017, the measurement date is June 30, 2016. In addition, the ESR has to provide all the updated required actuarial and historical data to be reported in the notes to the financial statements of the Municipality and as Required Supplementary Information (RSI). The information provided was for fiscal year ended June 30, 2015

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2017. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

The Municipality Net Pension Liability for each program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability is measured as of June 30, 2015, and the Total Pension Liability foe each program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contribution to the pension plan program relative to the projected contributions of all participating employers, actually determined.

As June 30, 2017, The Municipality reported $35,266,944 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

The Municipality's proportion of Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plan programs relative to the projected contributions of all the participating employers, actually determined. At June 30, 2015, the Municipality's proportionate share was 0.11720%. The Municipality's proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

	Proportionate Share of Net Pension Liability
Act Number 447	$ 27,816,886
Act Number 1	5,064,902
Act Number 305	2,385,156
Total Net Pension Liability	$ 35,266,944

16. PENSION PLAN (CONTINUED)

For the fiscal year ended June 30, 2017, the Municipality do not recognized pension expense because the information is not provided by the ERS, as of June 30,2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pension from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Pension Contributions subsequent to measurement date	$ 1,197,391	
Differences between actual and expected experience Change in assumptions		
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		
Net difference between projected and actual earnings on plan investments	16,867	282,221
Total	$ 1,214,258	$ 282,221

$784,889 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date (2015-2016) will be recognized, subsequently, as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as Deferred Inflows of Resources related to pension will be recognized as pension expenses as follows:

Fiscal Year Ended June 30,	
2018	$ 56,444
2019	56,444
2020	56,444
2021	56,444

16. PENSION PLAN (CONTINUED)

Actuarial Assumptions Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2017. The long-term expected rate of return on pension plan investment (6.75%) was determined using the non-loan portion of the portfolio that was adopted by the Board during December 31, 2013 as show below and Milliman's capital market assumptions as of June 30, 2014.

In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 10.0% with no volatility.

Asset Class	Target Allocation
Domestic Equity	25%
International Equity	10%
Fixed Income	64%
Cash	1%

Note that this new rate assumption of 6.75% per year is just slightly higher that the debt service on some of the Pension Obligation Bonds. The debt service on the Pension Obligation Bonds range from 5.85% to 6.55%.

Under GASB no.67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. As a result the increase in the investment return assumption, the assumed investment return on the Defined Contribution Hybrid Contribution Accounts program (80% of the net investment return assumption) was increased from 5.12% to 5.40%. The Total Pension Liabilities in the June 30, 2014 actuarial valuations were determine using the following actuarial assumptions.

Valuation date	June 30, 2014
Measurement Date	June 30, 2014
Amortization Method	18 years closed (beginning July1, 2014), level dollar
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	4.29%
Inflation	N/A
Payroll Growth	N/A
Projected Salary Increase	N/A
Investment Rate of Return	3.10%
Mortality	For general employees not covered under Act. No. 127, RP-2000 Employee Mortality Rates for males and females projected generational basis using Scale AA. For members covered under Act No. 127,RP-2000 Employee Mortality Rate from the blue collar adjustments for males and females, projected on a generational basis using a Scale AA. As generational tables, they reject mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

16. PENSION PLAN (CONTINUED)

This valuation also reflects a salary freeze until July 1, 2017 due to Act No. 66 of 2014.While the Act No. 66. Salary freeze only applies to Central Government Employees, public corporations are mandate by freezing salaries. Also, while municipalities are not impacted by Act No. 66, the actuaries have also assumed the salary freeze for these employees due to the current economic conditions in Puerto Rico.

The act No.32 (as amended by Act 244) Additional Uniform Contribution that will received each fiscal year from 2013-2033 is defined in Act No. 2454 as follows:

"Additional Uniform Contribution (AUC). – shall mean, (a) for purposes of fiscal year 2013-2014, one hundred and twenty million dollars ($120 million) and (b) for purposes of each fiscal year between 2014-2015 and 2032-2033, the uniform contribution certified by the external actuary of the ERS at least one hundred and twenty (120) days prior the start of such fiscal years as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below one billion dollars ($1.0 billion)."

As previously mentioned, because the budgetary constraints at the present time approximately $90.0 million of this amount were not collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.0 million for the Commonwealth's proposed budget for the fiscal year 2014.

ERS net assets has been exhausted in the 2014-2015 fiscal year. In the increasing Act no. 116 employer contributions, the Supplemental Contribution under Act No. 3, and the additional Uniform Contribution under Act No. 32 are not paid in full on an annual basis, ERS will continue being rapidly defunded and gross assets will be exhausted.

The approximate actual rate of return since the prior valuation was 88.15% for 2013-2014. This rate of return is determined on a net assets basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (Approximately $3.0 billion), the net assets return of 88.15% is significant larger than the 8.35% return on the gross assets basis.

The actuarial cost method was revised from projected unit credit to the entry age normal method to comply with the requirements of GASB No. 67. Due to the switchover from end of the year to beginning-of-year census data for fiscal year 2013-2014, demographic gain/loss during the year is limited to the difference between actual and expected benefits payments, which arise from termination and retirement activity and mortality versus expectations. During 2013-2014 this difference resulted in a gain of $62 million.

Illiquid Assets

The Act No. 32 AUC calculation is based on the objective of maintaining a $1.0 billion gross assets buffer at all times. It is important to note that material portion of ERS assets are illiquid in nature. Thus if the Act No. 32 AUC is not paid in full and the $1.0 billion buffer is not maintain, the ERS will run into liquidity issues and may be force to sell illiquid assets, potentially at significant loss the further detriment of the ERS. As of December 31, 2014, ERS had approximately $764 million in illiquid assets, comprise primarily of loans to ERS members and the COFINA investment. This projection assumes that these illiquid assets will be converted to liquid assets when needed. The AUC has increased markedly from the initial $140 million estimate prepared in 2013.

16. PENSION PLAN (CONTINUED)

As July 1, 2013, the first year of GASB No. 67 accounting, a projection to determine the GASB No. 67 date of depletion, if any, should be performed as June 30, 2013 to determine the single equivalent discount rate as of June30, 2013 used for the Total Pension Liability as of the beginning of the fiscal year. However, as directed by the ERS, the assets basis are exhausted in the 2014-2015 fiscal year and no projection needed to be performed. The tax free municipal index of 4.63% as of June30, 2013 was used as the discount rate in the determination of the Total Pension Liability as of June 30, 2014.

Net Pension Liability	June 30,2014	
	Total	Proportional Share (0.11720%)
Total Pension Liability	30,219,517,000	35,416,356
Fiduciary Net Position	127,488,000	149,412
Net Pension Liability	30,092,029,000	35,266,944
Fiduciary Net Position as a % of Total Pension Liability	0.42%	0.42%
Covered Payroll	3,489,096,000	917,865
Net Pension Liability as a % of Covered Payroll	862.46%	3858.56%

The Total Pension Liability was determined by an actuarial valuation as of July 1, 2013, calculated based on the discount rate and actuarial assumptions, and was then projected forward to June 30, 2014. There have been no significant changes between the valuation date of July 1, 2013 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB No. 67. Covered Payroll is as of July 1, 2013.

Discount Rate

The discount rate used to measure the Total Pension Liability was 4.29% for each plan as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee's contributions will be made at the current contributions rate and that contributions from the Municipality will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return on pension plan investments and was applied to all periods of projected benefits payments to determine the total pension liability. The plan's Fiduciary Net Position was nor projected to be available to make all projected future benefits payments of current active and inactive employees.

Therefore, the discount rate for calculating the Total Pension Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefits payments, to the extent that plan's Fiduciary Net Position is projected to be sufficient to make projected benefits payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's Fiduciary Net Position is not projected to be sufficient.

16. PENSION PLAN (CONTINUED)

	June 30, 2013	June 30,2014
Discount Rate	4.63%	4.29%
Long-term expected rate of return net of investment expense	6.40%	6.75%
Municipal bond rate*	4.63%	4.29%
*Bond Buyer General Obligation 20-Bond Index		

According to the paragraph 30 of Statement 68, the long –term discount rate should be determined without reduction for pension plan administrative expense. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability.

Changes in Net Pension Liability	Increase		(Decrease)	
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as June30, 2013	$ 28,941,368,000	$701,361,000	$28,240,007,000	$33,096,430
Changes for the year:			-	-
Service Cost	419,183,000		419,183,000	491,270
Interest on Pension Liability	1,321,478,000		1,321,478,000	1,548,732
Effect Plan Changes			-	
Effect of Economic/Demographic (Gains) of Losses	(61,855,0000)		(61,855,000)	(72,492)
Effect of Assumptions Changes or Inputs	1,198,308,000		1,198,308,000	1,404,381
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses		(29,530,000)	29,530,000	34,608
Other Expenses		(25,875,000)	25,875,000	30,325
Cost of Bonds		(192,947,000)	192,947,000	226,128
Member Contributions		359,862,000	(359,862,000)	(421,747)
Net Investment Income		253,558,000	(253,558,000)	(297,162)
Employer Contributions		660,024,000	(660,024,000)	(773,529)
Balance as of June30,2014	$ 30,219,517,000	$127,488,000	$30,092,029,000	$35,266,944

ERS is schedule to review all actuarial assumptions as part of its regular assets Liability Management (ALM) review cycle that is schedule to be completed in September 2016. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, ERS expects to continue using a discount rate net of administrative expenses for GASB's No. 67 and 68 calculations through at least the 2016-2017 fiscal year. ERS will continue to check the materiality of the difference in calculation until such time as actuarial have change his methodology.

16. PENSION PLAN (CONTINUED)

Sensitivity of the Proportionate share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Municipality's proportionate share of the Net Pension Liability, calculated using discount rate, as well as what the Municipality's proportionate share of the Net Pension Liability would be if it were calculated using discount rate that is 1- percentage point lower or 1- percentage point higher than the current rate.

	1 % Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	$ 40,165,558	$ 35,416,356	$ 31,483,539
Fiduciary Net Position	149,412	149,412	149,412
Net Pension Liability	40,016,146	35,266,944	31,334,127

Pension Plan Fiduciary Net Position

The employee's Retirement System of the Government of the Commonwealth of Puerto Rico provides additional information of the Defined Benefit Program and Hybrid Program. They issue a publicly available financial report that includes financial statements and require supplementary information for ERS, as a component unit of the Commonwealth. That report may be obtained in writing to the Administration at PO Box 42003, Minillas Station, San Juan, and PR 00940-2003.

17. TAX ABATEMENTS

Municipal Agreements

From time-to-time the Municipality of Vega Alta enters into economic development incentive agreements with entities that propose to locate businesses within the Municipality, or expand businesses within the Municipality, which are expected to provide a stimulus to the Municipality's economy and tax base. Generally, the agreements provide for a rebate of taxes paid to the Municipality according to formulas contained in the agreements. Some agreements provide for a rebate of sales, use or occupational taxes based on the payment of taxes above a base line and others provide for a sharing of the taxes (percentage rebates) above certain amounts. The agreements have limited terms. The Municipality generally expects to receive increased revenue as a result of the agreements. These incentive agreements require approval by the Mayor and Municipal Legislature. Some agreements provide for the repayment to the Municipality of the rebated amount if the entity ceases to operate its business for a certain length of time or fails to produce a certain level of employment. Ordinance 16, 2003-04 Series established an agreement with a local business for a reduced amount of personal property tax. The amount rebated during fiscal year 2017 was approximately $205,630.

17. TAX ABATEMENTS (CONTINUED)

Commonwealth Agreements

The GASB 77 Statement requires the Municipality to disclose tax abatements granted by other governmental entities that reduce the tax revenue of the Municipality. The Commonwealth of Puerto Rico (and its instrumentalities) grant such abatements and are listed below. The Statement requires the Municipality to disclose the amount of the taxes abated during the fiscal year. For purposes of this disclosure, the Municipality chooses to disclose all known agreements to be better able to track agreements.

A. ***Act 135 of 1998, as amended – "Tax Incentives Act"***

Purpose: To provide a tax incentives program that stimulates the creation of local capital; promotes the development of aerial and marine harbor infrastructure; promote the exportation of products manufactured in Puerto Rico; stimulate the development of strategic industries; promote the creation of small and medium businesses; promote the establishment of regional and central corporate offices and distribution centers in Puerto Rico; promote the creation jobs and the development of human resources; and to stimulate the development and distribution of technology in Puerto Rico.

Tax Benefits/Exemptions:

- Tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of seven percent (7%) on their net industrial development income (excluding the revenue earned from investments described in item (j) of Section 2 of this Act), with other provisions that would lower the tax rate.

- Tax-exempt businesses under this Act that manufacture textiles, clothing items produced with fabrics or other materials, articles made of leather or faux leather and shoes and/or dedicated to the canning of fish, shall be subject to a fixed income tax rate of four percent (4%), with other provisions that would lower the tax rate.

- Tax-exempt businesses under this Act whose operations are located in Vieques or Culebra or in a municipality with similar economic and/or employment situations shall be totally exempt from the payment of income taxes on the revenues from the industrial development activity during the first ten (10) years beginning on year of the commencement of operations. After the ten-year period, the tax-exempt business shall be subject to a fixed income tax rate of two percent (2%).

- Tax-exempt businesses that are service units that hold a decree under paragraph sixteen (16) of item (i) of Section 2 of this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income from operations that exclusively cover markets in Central and South America, or to a two percent (2%) fixed rate on their net industrial income from operations that cover markets from North America through South America or the global market.

17. TAX ABATEMENTS (CONTINUED)

A. *Act 135 of 1998, as amended – "Tax Incentives Act" (Continued)*

- Shareholders or partners of tax-exempt businesses that hold a decree under this Act that are individuals will have the right to an income tax credit equal to thirty percent (30%) of their proportional participation in the fix tax rate on the net industrial development income paid by the tax-exempt business.
- Tax-exempt businesses that hold a decree under this Act, are dedicated to manufacturing and generate a net industrial development income, calculated without taking into account the benefits of the special deductions provided by this Act, of less than $30,000 per production job, shall enjoy a special payroll deduction equal to a fifteen percent (15%) of the production payroll of the tax-exempt business, up to fifty percent (50%) of the net industrial development income computed without taking into account this special deduction.
- Special deduction equal to the amount of job training expenses incurred to improve productivity and quality control, to promote total quality management and to better the communication skills of their employees, incurred in excess of the average annual amount incurred in these expenses during the three (3) tax years ending after the effective date of this Act.
- Special deduction that equals the amount of expenses incurred in the research, experimentation and development of new products or industrial processes, or in the improvement of existing ones, that is deductible in the tax year under Subtitle A of the Puerto Rico Internal Revenue Code.
- Tax-exempt businesses that hold a decree under this Act shall have the choice to deduct in the tax year in which they are incurred the amounts invested in the construction and/or purchase of buildings, structures, machinery and equipment, instead of capitalizing the expenses made as required by the Puerto Rico Internal Revenue Code, as long as the assets have not being previously used by another person or business in Puerto Rico and they are utilized for the manufacturing of products or for providing the services for which the benefits under this Act were granted.
- Special deduction for the purchase of products manufactured in Puerto Rico that equals fifteen percent (15%) of purchase amount, reduced by the average of the purchases made of duh products during the year 2000. This deduction is granted only for purchases of products that have been manufactured by companies not related to the tax-exempt business.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.
- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance or resolution. However, tax-exempt businesses described in paragraph (2) of item (a) of Section (3) of this Act shall be granted a seventy-five (75%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes; and for those described in paragraph (3) of item (a) of Section (3) pf this Act, the exemption will be ninety percent (90%).

17. TAX ABATEMENTS (CONTINUED)

A. *Act 135 of 1998, as amended – "Tax Incentives Act"(continued)*

- Complete exemption on state excise taxes following the terms indicated in item (c) of Section (6).

B. *Act 73 of 2008 – "Economic Incentives Act for the Development of Puerto Rico"*

Purpose: To provide the adequate environment and opportunities to continue developing local industries; to offer an attractive tax proposal to attract direct foreign investment and to promote economic development and social betterment in Puerto Rico.

Tax Benefits/Exemptions:

- The tax-exempt businesses that hold a decree under this Act shall be subject to a fixed income tax rate of four percent (4%) on their net industrial development income, with other provisions that would lower the tax rate. Also, they will have a 100% exemption on the income earned from eligible investments.
- A special deduction for investment in buildings, structures, machinery and equipment in the taxable year during which these were incurred, in lieu of any capitalization of expenses.
- A tax credit for purchasing products manufactured in Puerto Rico equal to twenty-five percent (25%) of the purchases of such products.
- A tax credit to reduce the cost of electric power of up to 10% of the payments made to the Puerto Rico Electric Power Authority for the net electric power consumption.
- Sixty-percent (60%) exemption on municipal license taxes, municipal construction excise taxes and other municipal taxes levied by any municipal ordinance or resolution.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

C. *Act 20 of 2012 – "Export Services Act"*

Purpose: to offer the necessary elements for the creation of a World Class International Service Center. The Act provides tax exemptions and tax credits to businesses engaged in eligible activities in Puerto Rico. To avail from such benefits, a business needs to become an exempt business by applying for a tax concession and obtaining a tax exemption decree.

Tax Benefits/Exemptions:

- 4% fixed income tax rate;
- 3% fixed income tax rate in the case of services considered strategic;
- 100% tax exemption on distributions from earnings and profits;
- 90% tax exemption from personal property taxes for certain types of businesses (100% tax exemption for the first five years of operation). The taxable portion will be subject to the regular tax rate, that currently can be up to 8.83%; therefore, after considering the 90% exemption, the effective tax rate would be up to 0.883%;

17. TAX ABATEMENTS (CONTINUED)

C. *Act 20 of 2012 – "Export Services Act" (Continued)*

- 90% tax exemption from real property taxes for certain types of businesses (100% tax exemption for the first five years of operation). The taxable portion will be subject to the regular tax rate, that currently can be up to 10.83%; therefore, after considering the 90% exemption, the effective tax rate would be up to 1.083%; and
- 60% tax exemption on municipal taxes (90% tax exemption if business operates in the industrial development zone constituted by the municipalities of Vieques and Culebra). Any taxable portion will be subject to the regular tax rate, that currently can be up to 0.5%; therefore, after considering the 60% exemption, the effective tax rate would be up to 0.02%.

D. *Act 74 of 2010, "The Tourism Development Act of Puerto Rico"*

Purpose: provides incentives for the development of world-class tourism activities. The benefits under this law will remain valid for a period of 10 years from the starting date of the eligible tourism-related project, and the business operation will be entitled to a 10-year extension.

Tax Benefits/Exemptions:

- Tax credit equal to 10% of the total project costs, or 50% of the cash investment made by investors (whichever is less)
- 100% exemption on municipal construction excise taxes
- 100% exemption on sales and uses taxes
- 100% exemption on excise taxes and other municipal taxes for new projects or 90% exemption, if existing project
- 90% exemption on income tax or 100% exemption if project is located in the island municipalities of Vieques or Culebra
- Up to 90% exemption on personal and real property municipal taxes.

The information presented below has been compiled, after reasonable attempts to obtain the required information were made. The Municipality makes no representation that this information is correct, complete, or that individual circumstances have not changed subsequent to the application for abatements.

17. TAX ABATEMENTS (CONTINUED)

Act's Name	Tax Category	Percent Abated	Amount Abated FY 2016-17
Act 135 of 1998, as amended – *"Tax Incentives Act"*	Real property tax	90%	$ 319,896
	Personal property tax	90%	163,320
	Municipal license tax	60%	62,948
			$ 546,164
Act 73 of 2008, as amended – *"Economic Incentives Act for the Development of Puerto Rico"*	Real property tax	90%	$ 42,152
	Personal property tax	90%	1,090,335
	Municipal license tax	60%	122,065
			$ 1,254,552
Act 20 of 2012, as amended – *"Export Services Act"*	Real and personal property tax	100%	$ 141,392
	Municipal license tax	60%	8,118
			$ 149,510
Act 74 of 2010, as amended – *"The Tourism Development Act of Puerto Rico"*	Real property tax	90%	$ 221,337
	Personal property tax	90%	-
	Municipal license tax	90%	2,569
			$ 223,906

18. COMMITMENTS AND CONTINGENCIES

a. **Federal grants:**

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, will not be material.

b. **Claims and lawsuits:**

The Municipality is a defendant in several legal proceedings that arise in the ordinary course of the Municipality's activities. Certain of these claims are covered by insurance. The administration believes that the ultimate liability, if any, would not be significant. As a result, the accompanying financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

With respect to pending and threatened litigation, the Municipality has reported liabilities of $200,000 for awarded or anticipated unfavorable judgments in the Government-Wide Financial Statements. This amount was included in the basic financial statements and represents the amounts estimated as a probable liability or a liability with a fix or expected due date, which will require future available financial resources for its payments.

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

c. **Offset of general and special obligation bonds and notes undisbursed escrow cash balances, property tax and sales and uses tax deposited at the Government Development Bank of Puerto Rico:**

As part of the Government Development Bank's fiscal plan approved by the Financial Oversight and Management Board, the Institution will adjust loan balances based on the undisbursed municipal loan proceeds, property tax and sales and uses tax deposited in the GDB against the corresponding loans. However, as of the date of issuance of the financial statements, the GDB has not made this offset transaction and, therefore, the corresponding bonds and notes payables principal balances have been reported without taking into account the unspent proceeds maintained as escrow accounts at the GDB. If this offset had been made as of June 30, 2017, the net outstanding principal balance of the corresponding bonds and notes would be as follows:

Bond/Note Payables and Deposits in GDB	June 30,2017
General and special obligation bonds	$ 19,785,000
Total Outstanding debt	19,785,000
Cash escrow accounts balance	(7,907,940)
Unspent balance of property tax for debt payment (CAE)	(2,617,842)
Unspent balance of sales and use tax for debt payment (FAM IVU)	(171,085)
Unspent balance of CRIM advances retentions	(12,408)
Total cash available to be offset	(10,709,275)
Total outstanding principal debt balance	$ 9,075,725

19. RESTATEMENT OF FUND BALANCE AND NET POSITION

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

Description	Fund Financial Statements Debt Service Fund	Government-wide Financial Statements Net Position Governmental Activities
Total fund balances/ net position, at beginning of year, as previously reported	**$ 1,928,033**	**$ 13,255,987**
Overstatement of long term debt		(576,318)
Understatement of cash in commercial bank	1,073,872	1,073,872
Fund balance/ net position, beginning as restated	**$ 3,001,905**	**$ 13,753,541**

20. SUBSEQUENT EVENTS

Impact of the Certified Fiscal Plan of the Commonwealth of Puerto Rico

One of the measures approved for the reduction of governmental expenditures included in the fiscal plan certified by the Financial Oversight and Management Board is the progressive reduction of the subsidies given to the Municipalities, mainly the ones that are paid through the monthly advances of property taxes made by the Municipal Revenue Collection Center (CRIM). This reduction will commence on the 2017-18 fiscal year and, for the Municipality of Vega Alta, it represented a 13% reduction in its budgeted revenues as follows:

Revenue Source	2017-18 Budget	2016-17 Budget	Difference	Percentage
State reimbursement of property tax exonerations	$ -	$ 473,269	$(473,269)	-100%
State reimbursement of 0.20% of property tax rates	2,533,568	3,035,309	(501,741)	-16%
2.5% RIN subsidy	4,872,711	5,115,823	(243,112)	-4%
Christmas bonus reimbursement	88,000	88,000	-	0%
Total	$ 7,494,279	$ 8,712,401	$(1,218,122)	13%

20. SUBSEQUENT EVENTS (CONTINUED)

As part of the measures taken by the Municipality to offset this significant reduction in revenues, a furlough program was implemented in which the daily operating hours were reduced from 7.5 to 6. Due to the catastrophic effects caused by the natural disasters Hurricanes Irma and María, it is uncertain if the Commonwealth will restore some of these municipal subsidies or if the funds received from the Federal Emergency Management Agency (FEMA) will mitigate this significant loss of revenue.

Implementation of the "PayGo" system for the payment of pension plan's benefits and employer contributions

The Commonwealth of Puerto Rico's Employees Retirement System (ERS) is a "covered entity" under the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). It was expected that the liquid assets of the ERS would be exhausted within the first months of the fiscal year 2017-18. To ensure the payment of the pension plan benefits to its retirees, beginning July 1, 2017, a "PayGo" system was adopted by the Commonwealth. Under this new system, the Commonwealth will be responsible for covering the deficiencies that will emerge in the pension plans when the benefits are paid to the pensioners.

The Puerto Rico Department of Treasury (PRDT) will bill the Public Corporations and Municipalities a monthly fee to cover the benefits of their retirees. The ERS will be responsible for determining and administrating the amount to be paid by pensioner that each Public Corporation and Municipality must reimburse. This amount will be known as the "PayGo Charge." The objective of this system is to protect the payment of the benefits of the Commonwealth's retirees. Each Public Corporation and Municipality is responsible for the payment, in its entirety, of this monthly "PayGo Charge" to the PRDT. With the implementation of the "PayGo System," beginning July 1, 2017, the employer's pension contribution (16.775% for the fiscal year 2017-18), the Special Laws contribution and the Additional Uniform Contribution (AUC) will be eliminated and substituted by the "PayGo Charge."

In addition to the implementation of this new system, the government will work on a reform of the retirement systems in which the participants will deposit their individual contributions in a new defined contribution plan to be administered by a private entity. In order to preserve the contributions of the current participants in a segregate manner, their contributions will deposited in a separate bank account different from the ones to be used for the "PayGo Charge"; for the payroll withholdings corresponding to personal loans, mortgages and cultural trips payments; and for the disability insurance premium payment.

The effect of this change in the 2017-18 budget of the Municipality cannot be determined at this time.

Hurricanes Irma (DR-4336) and María (DR-4339)

From September 5, 2017 through September 7, 2017, Puerto Rico suffered the passing of Hurricane Irma, a Category 4 hurricane that severely affected the municipal islands of Vieques and Culebra and several municipalities located in the metro, north, east and south areas of the Island: Adjuntas, Aguas Buenas, Barranquitas, Bayamón, Camuy, Canóvanas, Carolina, Cataño, Ciales, Comerío, Dorado, Guaynabo, Gurabo, Hatillo, Jayuya, Juncos, Las Piedras, Loíza, Luquillo, Naguabo, Orocovis, Patillas, Quebradillas, Salinas, San Juan, Utuado, Vega Baja and Yauco. It was declared a major disaster area by the President of the United States on September 10, 2017 and almost $3.9 million dollars in public assistance grants have been obligated.

Just two weeks after Hurricane Irma, on September 17, 2017, Hurricane María hit Puerto Rico as a Category 4 hurricane, causing catastrophic damages to the infrastructure and the collapsing of the electric power grid and the telecommunications system of the entire Island. It was declared a major disaster area by the President of the United States on September 20, 2017 and approximately $508 million dollars in public assistance grants have been obligated. Many citizens lost their homes and the business sector suffered heavy losses due to infrastructure damages, looting during and after the hurricane, loss of inventory and the absence of electric power, which forced businesses to invest in power generators to operate, incurring in significant gasoline and diesel expenses. As of today, four months after the incident, there are still many areas without energy and water service.

20. SUBSEQUENT EVENTS (CONTINUED)

The City Halls of many municipalities suffered structural damages forcing them to relocate to their Centers for Emergency Operations (CEOs); and, as of today, there are still municipalities that have not been able to return to their administrative offices. One of the most significant damages experimented is the mold and bacterial contamination of their buildings, documents and archives due to water filtrations that occurred during and after the passing of these hurricanes. This contamination has required the municipalities to enter in the process of hiring cleaning companies specialized in this type of event and this process has taken a significant period of time. The Municipality of Vega Alta returned to their City Hall on January 2018 and there are still areas of the building that cannot be accessed due to mold contamination.

As part of the measures implemented by the Commonwealth in the aftermath of these disasters, the Puerto Rico Department of Treasury issued various Administrative Determinations ("AD") that established an exemption from the payment of sales and use tax on the purchase of processed foods. After Hurricane Irma, AD No. 17-09 established a period of exemption from September 8 through 10, 2017. After Hurricane María, AD No. 17-12 stated an exemption period from September 21 through 24, 2017; it was extended through October 8, 2017 with AD No. 17-13, and with AD No.17-17, it was extended indefinitely until the issuance of AD No. 18-01, which finalized the exemption period on January 7, 2018. In addition to the exemption on the purchases of processed foods, through the issuance of AD No. 17-26, small and medium size companies with an annual sales volume of $1,000,000 or less were exempted from the collection of sales and use tax on their sales from November 20 through December 31, 2017. These sales and use tax exemptions will have a significant negative impact on the sales and use tax collections to be reported by the Commonwealth and the Municipalities for the fiscal year 2017-18.

The Commonwealth of Puerto Rico and the Financial Oversight and Management Board are working with the Federal Emergency Management Agency (FEMA), the U.S. Congress and the President for the assignment of federal assistance of approximately $94 million, mainly for the reconstruction of the electric infrastructure and housing assistance for the residents of Puerto Rico. The U.S Congress, with the approval of the President, has designated almost $15 million in assistance to mitigate the disaster caused by Hurricane María. These measures include the designation of $4.8 million in Medicaid funds for Puerto Rico; and $11 million under the Community Development Block Grants Program (CDBG) for Puerto Rico and the U.S. Virgin Islands, of which $2 million will be used exclusively in the reconstruction of the electric power system of both countries. In addition, $150 million have been designated for the Community Disaster Loans Program (CDL). The Municipalities can apply for a loan under this Program for 25% of their total budgeted revenues, up to $5,000,000. The loan proceeds can be only used for operating expenses and once the entire amount has been withdrawn, a promissory note and collateral security agreement will be issued in which the outstanding balance owed will be paid and secured by a pledge of the applicant's revenues for each fiscal year while any principal of the loan is outstanding, after a provision has been made for the payments required in connection with any outstanding indebtness of the application. The Municipality of Vega Alta has applied for a loan under this Program and is waiting for its approval.

The Commonwealth of Puerto Rico is reviewing its fiscal plan to take into account the federal funds awarded by the U.S. Congress. The impact of these changes with regards to the subsidies given to the Municipalities (which suffered a significant decrease for the fiscal year 2017-18), if any, is still undetermined.

Budgetary Comparison Schedule-General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 3,508,578	$ 3,508,578	$ 3,508,578	$ -
Municipal license taxes	2,365,776	2,365,776	2,250,311	(115,465)
Municipal sales and use taxes	1,955,824	1,955,824	1,449,715	(506,109)
Licenses, permits and other local taxes	15,000	15,000	39,167	24,167
Intergovernmental	6,750,814	6,750,814	6,751,284	470
Interest, fines and penalties	625,000	625,000	207,044	(417,956)
Rent of property	280,000	280,000	262,616	(17,384)
Other	910,000	910,000	500,899	(409,101)
Total revenues	16,410,992	16,410,992	14,969,614	(1,441,378)
Total revenues after carryover	16,410,992	16,410,992	14,969,614	(1,441,378)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	10,713,247	10,905,728	9,349,233	1,556,495
Public safety	1,372,828	1,262,711	999,420	263,291
Sanitation and environmental control	3,188,795	3,154,188	2,629,814	524,374
Culture, recreation and Education	848,955	834,484	501,416	333,068
Public, housing and welfare	287,167	253,881	21,838	232,043
Total expenditures, encumbrances and other financing uses	16,410,992	16,410,992	13,501,721	2,909,271
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ 1,467,893	$ 1,467,893

Explanation of Differences:

Sources/inflows of resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 14,969,614
Differences-budget to GAAP:	
GAAP adjustments to revenues	(526,556)
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$ 14,443,058
Uses/outflows of resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 13,501,721
Differences-budget to GAAP:	
Non-budgeted expenditures	(426,620)
Prior year encumbrances recorded as current year expenditures for GAAP basis	597,026
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$ 13,672,127

See notes to the Budgetary Comparison Schedule- General Fund.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

The annual budget as presented in the Budgetary Comparison Schedule-General Fund is the budget ordinance at June 30, 2017 representing the original budget. There were no supplemental appropriations for the year ended June 30, 2017.

	2015
Proportion of the Pension Liability	0.11720%
Proportionate Share of Pension Liability	$ 35,266,944
Covered- Employee Payroll	$ 917,865
Proportionate Share of Net Pension Liability as Percentage of covered- Employee Payroll	0.42%
Plan's Fiduciary Position	$ 149,412
Plan's Fiduciary Position as a Percentage of the Total Liability	0.42%

Notes to Schedule:

Benefit Changes: In 2015, benefit terms were modified to base public safety employee pensions on a final three- year average salary instead of a final five- year average salary.

Changes Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

*Fiscal year 2015 was the first year of implementation, therefore only one year is show. The amounts presented have a measurement date of June 30, 2014.
Data Reference: Employees' Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

		2015
Contractually Required Contribution (Actuary Determined)	$	35,266,944
Contributions in Relation to the Actuarially Required Contributions		-
Contributions Deficiency (Excess)	$	35,266,944
Covered – Employee Payroll	$	917,865
Contributions as Percentage of Covered- Employee Payroll		0.42%

Methods and Assumptions Used in Calculation of the ERS's Annual Required Contributions

Unless otherwise notes above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contribution:

Assets Valuation	Method Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.75%, Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	4.29%, as per Bond Buyer General Obligation 20 – Bond Municipal Bond Index
Discount Rate	4.29%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as result of Act No. 66 and the current general economy.
Mortality	Pre-retirement Mortality: For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP- 2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100.00% of deaths while in active service are assumed to be occupational for members covered under Act No. 127. Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 212 to 92% of the rates from the UP-1994 Mortality Table for males and 95% of rates from the UP-1994 Mortality Table for Females. The rates are projected on generational table, it reflects mortality improvements both before and after the measurement date. Post- retirement Disable Mortality: Rates which vary by gender are assumed for disable retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of tie rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvements for disabled retirees.

1. The Municipality implemented GASB Statement No.68, Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No.27, during fiscal year 2015, and these schedules are now required.

2. This information is intended to help users asses the Municipality's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

3. The information presented relates solely to the Municipality and not Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	BALANCE SHEET	
Assets	**Current Assets Cash**	
111	Cash – Unrestricted	$ 57,416
113	Cash - Other Restricted	38,955
115	Cash – Restricted for Payment of Current Liabilities	2,619
100	**Total Cash**	$ 98,990
121	Accounts Receivable - PHA Projects	-
125	Accounts Receivable - Miscellaneous	1,402
128	Fraud Recovery	-
128.1	Allowance for Doubtful Accounts - Fraud	-
150	**Total Current Assets**	100,392
	Non-Current Assets	-
	Fixed Assets:	-
164	Furniture, Equipment & Machinery - Administration	-
166	Accumulated Depreciation	-
160	**Total Capital Assets, Net of Accumulated Depreciation**	-
180	**Total Non-Current Assets**	-
290	**Total Assets and Deferred Outflow of Resources**	$ 100,392
Liabilities and Equity	**Liabilities**	
312	Accounts Payable (less 90 days)	2,619
332	Accounts Payable – PHA Projects	-
333	Accounts Payable – Other Government	-
310	**Total Current Liabilities**	2,619
353	Non-Current Liabilities - Other	-
350	**Total Non-Current Liabilities**	-
300	**Total Liabilities**	$ 2,619
400	**Deferred Inflow of Resources**	-
Equity	**Equity**	
508.4	Net Investment in Capital Assets	
511.4	Restricted Net Position	$ 25,055
512.4	Unrestricted Net Position	72,718
513	**Total Equity - Net Assets/Position**	$ 97,773
600	**Total Liab., Def. Inflow of Res., and Equity - Net Assets/Position**	$ 100,392

See notes to the Financial Data Schedule

Line Item #	Description	Housing Choice Vouchers (CFDA No. 14.871)
	INCOME STATEMENT	
70600	HUD PHA Operating Grants	$ 717,113
71100	Investment Income - Unrestricted	-
71400	Fraud Recovery	2,420
71500	Other Revenue	46,192
72000	Investment Income- Restricted	183
70000	**Total Revenues**	$ 765,908
	Expenses Administrative:	
91100	Administrative Salaries	83,104
91200	Auditing Fees	-
91500	Employee Benefit Contributions - Administrative	-
91600	Offices Expenses	-
91000	**Total Operating - Administrative**	83,104
96200	Other General Expenses	468
96600	Bad Debt - Other	-
96000	**Total Other General Expenses**	468
96900	**Total Operating Expenses**	$ 83,572
97000	**Excess of Operating Revenue over Operating Expenses**	$ 682,336
97300	Housing Assistance Payments	659,093
97350	HAP Portability-In	42,248
97400	Depreciation Expense	-
90000	**Total Expenses**	$ 784,913
10000	**Excess (Deficiency) of Total Revenues Over (Under) Total Expenses**	($ 19,005)
	Memo Account Information:	
*11030	Beginning Equity	$ 116,778
11040	Prior Period Adjustment	$ -
*11170	Administrative Fee Equity	$ 72,718
*11180	Housing Assistance Payments Equity	$ 25,055
*11190	Unit Months Available	117
*11210	Number of Unit Months Available	113

See notes to the Financial Data Schedule

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Sub-recipients	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Direct Program:				
Section 8 Housing Choice Vouchers	14.871	N/A	$ -	$ 717,113
Supportive Housing Program	14.235	N/A	-	163,831
Pass-through the Commonwealth of Puerto Rico - Office of the Commissioner of Municipal Affairs:				
Community Development Block Grants – State's Program	14.228	N/AV	-	456,826
Pass-through the Municipality of San Juan:				
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	N/AV	-	96,102
Total U.S. Department of Housing and Urban Development			-	**1,433,872**
U.S. DEPARTMENT OF TRANSPORTATION:				
Direct Program:				
Federal Transit-Formula Grants	20.507	N/A	-	209,532
Total U.S. Department of Transportation			-	**209,532**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
Pass-through the Commonwealth of Puerto Rico Administration for Children and Families (ACUDEN):				
Community Service Block Grant	93.569	N/AV	-	26,817
Total U.S. Department of Health and Human Services			-	**26,817**
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	**$ 1,670,221**

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of Vega Alta and is presented on the modified-accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information in this Schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. INDIRECT COSTS

The Municipality elected not use the 10% de minimis cost rate and did not charge indirect cost to federal grants during the year ended June 30, 2017.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

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

Description	Other Governmental Funds
Total federal expenditures per Schedule of Expenditures of Federal Awards	$ 1,670,221
Non-federal awards expenditures	2,637,887
Total expenditures, fund statements	$ 4,308,108

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

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of Vega Alta

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of Vega Alta of the Commonwealth of Puerto Rico, (from now on the Municipality) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our qualified report thereon dated September 17, 2018. Our report was qualified because the Municipality was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan related to the implementation of the Governmental Accounting Standards Board (GASB) 68, "Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68".

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item #2017-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item #2017-001 to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Municipality's Response to Findings

The Municipality's responses to the findings identified in our audit are described in a separate document (Corrective Action Plan) prepared by the Municipality. Municipality's responses were not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project'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 Project's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Report on Other Legal and Regulatory Requirement

This report is intended solely for the information and use of management, others within the Municipality and the United States Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

September 17, 2018

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of Vega Alta

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Vega Alta of the Commonwealth of Puerto Rico, (from now on the Municipality) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Municipality's major federal program for the fiscal year ended June 30, 2017. The Municipality's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Project's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, 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 the major federal program for the fiscal year ended June 30, 2017.

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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 our audit of compliance, we considered the Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on the 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

September 17, 2018

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

Part I - Summary of Audit Results:

Financial Statements

The independent auditor's report on the financial statements expressed a qualified opinion.

Internal Control Over Financial Reporting:

Material weaknesses identified?	_X_ yes	___ no
Significant deficiencies identified?	_X_ yes	___ none reported
Noncompliance material to the Financial Statement noted?	____ yes	_X_ no

Federal Awards

Internal control over major programs:

Material weaknesses identified?	____ yes	_X_ no
Significant deficiencies identified?	____ yes	_X_ none reported

The independent auditor's report on compliance with requirements applicable to major federal awards program expressed an unqualified opinion.

The audit disclosed findings to be reported in accordance with Uniform Guidance, Section 200.516	____ yes	_X_ no

Municipality's major award during the year ended June 30, 2017 was:

CFDA #14.871 - Section 8 Housing Choice Voucher Program

A threshold of $750,000 was used to distinguish between type A and type B programs, as those terms are defined in Uniform Guidance, Section 200.518.

Municipality qualify as a low risk auditee?	____ yes	_X_ no

Part II - Findings Related to the Financial Statements:

FINDING NUMBER 2017-001: REQUIRED CLAUSES NOT INCLUDED ON CONTRACTS

CONDITION: We selected sixteen (16) contracts for examination. We noted the following required clauses were not included, stating the following:

1. That the contracted party will not enter in contractual relationships or acts that represents a conflict of interest with the Municipality (1 Contract),

2. That the contracted party has no knowledge of any Municipality's official or public employee having direct or indirect interest in the contract, (1 Contract),

CRITERIA: Sound government management requires disclosure of such information when a contract is prepared in order to safeguard municipal interest. Also, to comply with the following applicable laws and regulations related to contracts as detailed for each instance above as follows:

Instance 1 -

Article 5, G, Law No. 237 of August 31, 2004,
Article 5, sections (g) and (m), Law No. 84 of June 18, 2002,
Article 3.3 Law No. 12 of July 24, 1985, as amended,
Administrative Bulletin No. OE-1994-11,
Memorandums No. 07-93 and No. 93-04 from the Office of the Governor of Puerto Rico, and
Circular Letters No. 95-05 and 94-01 of the Governmental Ethics Office.

Instance 2 -

Article 5, sections C and F Law No. 237 of August 31, 2004,
Article 5, sections (e), (k) and (n), Law No. 84 of June 18, 2002,
Article 3.3 Law No. 12 of July 24, 1985, as amended, and
Circular Letters No. 2002-05 and 95-05 of the Governmental Ethics Office.

CAUSE: Internal control procedures to assure that contracts include all clauses required by laws and regulations were not effective enough during this fiscal year. Contracts were not properly verified by the officials preparing then to assure this information was contained in contracts before signature.

Part II - Findings Related to the Financial Statements (Continued):

FINDING NUMBER 2017-001: REQUIRED CLAUSES NOT INCLUDED ON CONTRACTS (CONTINUED)

EFFECT: The Municipality is not properly safeguarded.

RECOMMENDATION: To strengthen present control procedures to assure all contracts prepared contains all the necessary clauses and information, as required by present laws and regulations, and by state and federal agencies. One employee should be designated to verify contracts before signature to ensure they are complete in terms of required clauses before signature. We also recommend that an employee be designated as preintervention officer to verify all contracts prepared.

MANAGEMENT RESPONSE: See corrective action plan.

FINDING NUMBER 2017-002: BIDS FILES NOT FOUND

CONDITION: For two (2) bids examined, one file was not found.

CRITERIA: To comply with chapter 8, part 1, section 4 of the OCAM Ruling for Municipal Administration.

CAUSE: The Municipality has not implemented a strict policy of verifying and filling all bid files prepared for every bid celebrated, to assure that all documentation required under internal control policies and applicable laws and regulations is available, before filing them.

EFFECT: Bids are not properly filled and municipal interests is not adequately protected. Also, without documentation that the bidder awarded or contractor obtained was properly realized, we were unable to verify that the municipality comply with the bids ruling.

RECOMMENDATION: To strengthen procedures to assure that all the bid files are properly filled and includes all documents required by applicable laws and regulations. An employee independent of the Finance Department and the Bid Board should be designated to oversee this procedure.

MANAGEMENT RESPONSE: See corrective action plan.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

Part III - Findings and Questioned Costs Related to Federal Awards:

No findings related to the federal awards were noted.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF VEGA ALTA
SCHEDULE OF PRIOR AUDIT'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Prior Audit's Findings and Questioned Costs:

No findings presented in prior audits.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

To the clients and users of the financial statements
Reported upon by Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

The partners and staff of Torres, Hernández & Punter, CPA, PSC are pleased to announce the successful completion of the 2016 independent peer review of our accounting and auditing practice. This review was undertaken as a condition of membership in the American Institute of Certified Public Accountants (AICPA), the national organization of CPA's in public practice, industry, government and education. Our participation in the Peer Review Program demonstrates our firm's commitment and desire of maintaining and improving the quality of our practice.

After through study or our policies and procedures, the team conducting the review concluded our firm complies with the quality control standards established by the AICPA and the Puerto Rico Society of CPA's (PRSCPA). Our firm is committed to periodic peer review to foster quality performance.

Bankers, bonding agents, investors, suppliers, legal advisors and others use the financial statements our firm audits, reviews, or compiles. We think those people, our clients, and our own staff, deserve independent quality assurance that our firm provides quality services. We are proud of our peer review results and would be happy to answer any questions you might have.

Sincerely,

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC

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(787) 758-1428 • Fax 763-9386

To the Stockholders of
Torres, Hernandez & Punter, CPA, CSP
and the Peer Review Committee of the
Puerto Rico Society of Certified Public Accountants

SYSTEM REVIEW REPORT

We have reviewed the system of quality control for the accounting and auditing practice of **Torres, Hernandez & Punter, CPA, CSP** (the firm) in effect for the year ended December 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of Employee Benefit Plan.

In our opinion, the system of quality control for the accounting and auditing practice of **Torres, Hernandez & Punter, CPA, CSP** in effect for the year ended December 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. **Torres, Hernandez & Punter, CPA, CSP** has received a peer review rating of *pass*.

De Angel & Co, CSP

License No. 113
Expires on December 1, 2018

San Juan, Puerto Rico
July 29, 2016
2016-07-40

Stamp Number
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original