

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN**

**FINANCIAL STATEMENTS  
(with additional reports required by the Government  
Auditing Standards and the Uniform Guidance)  
For the Fiscal Year Ended June 30, 2019**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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MUNICIPALITY OF BAYAMÓN  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### **Basis for Qualified Opinion on Governmental Activities**

The Municipality has not implemented the requirement of Statement No. 73 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68* in the governmental activities. Accounting principles generally accepted in the United States of America require that the total pension liability, deferred outflow of resources, deferred inflow of resources, and related pension expense be recorded, which would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, decrease net position and change pension expense in the governmental activities. The amount by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, net position and pension expenses has not been determined.

The Municipality has not implemented the requirement of Statement No. 75 of the Governmental Accounting Standard Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) as of for the year ended June 30, 2019. Accounting principles generally accepted in the United States of America require that net other postemployment benefit related liability, deferred outflow of resources and deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 75, as well as the effect of current period changes of the aforementioned amounts that must be recognized in other postemployment benefit expense during the current period. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, net position, and other postemployment benefit expense have not been determined.

### **Qualified Opinion**

In our opinion, except for the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Municipality of Bayamón, as of June 30, 2019, and the respective changes in the financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of June 30, 2019, and the respective changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

### *Uncertainties Regarding Commonwealth of Puerto Rico's Going Concern*

The Municipality is an instrumentality of the Commonwealth of Puerto Rico ("the Commonwealth"). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. The Commonwealth and its components units currently face severe fiscal, economic, and liquidity situations, including accumulated net position and fund balances deficits, lack of access to financing, and difficulties in honoring its obligations as they become due. The Municipality receives substantial operating funds from the Commonwealth in the form of intergovernmental subsidies. The Commonwealth and its components units are currently under the supervision of a Federal Oversight Board and are implementing fiscals plans approved by the Board in order to remediate their situation. The financial statements of the Municipality do not include any adjustment that might result from these uncertainties. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information Omitted*

Management has omitted required supplementary information related to pensions and other postemployment benefits standards that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 18 and 87 through 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

**ORTIZ, RIVERA<sup>3</sup>, RIVERA & CO.**

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*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. The accompanying Financial Data Schedule, as required by U. S. Department of Housing and Urban Development, on pages 91 through 94, and the Schedule of Expenditures of Federal Awards on pages 96 through 97 are presented for purposes of additional analysis as required by Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards, and they are not a required part of the basic financial statements.

The accompanying Financial Data Schedule and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule 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 March 20, 2020, on our consideration of the Municipality of Bayamón's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Municipality of Bayamón internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality of Bayamón's internal control over financial reporting and compliance.

San Juan, Puerto Rico  
March 20, 2020

The stamp E398160 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMON**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2019**

The Municipality of Bayamón (the Municipality) discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Municipality's financial activities, (c) identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

As management of the Municipality, we offer readers of the Municipality's financial statements this narrative and analysis of the financial activities of the Municipality for the year ended June 30, 2019. Information in this Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements and the accompanying notes to financial statements, which are included in this report.

**Financial Highlights**

- For FY 2019, the Municipality's total net position increased by \$38.3 million or 8%. The governmental activities net position increased by \$37.7 million or 8.1% and the business-type activities net position increased by \$0.6 million or 3.2%. The analysis of these changes in net position related to governmental and business-type activities is further discussed on pages 9-10 of this MD&A.
- The governmental activities revenue increased \$6.6 million or 3.2% in FY 2019, the results of governmental activities produced an increase in net position of \$37.7 million, while in FY 2018 governmental activities net position increased by \$23.6 million. The analysis of these changes and current year impacts related to governmental activities is further discussed on pages 11-13 of this MD&A.
- The business-type activities revenue increased by \$0.5 million or 62.5%. In FY 2019, the results of activities produced an increase in net position of \$0.6 million, while in FY 2018 net position increased by \$0.8 million. The analysis of these changes and current year impacts related to business-type activities is further discussed on pages 11-13 of this MD&A.
- The Municipality's total expenses decreased by \$16.0 million or 7.8%. The analysis of this change related to government-wide activities and changes in net position is further discussed on pages 11-14 of this MD&A.
- The General Fund, the primary operating fund, reflected on a current financial resource basis, reported an increase in fund balance of \$14.2 million, compared to an increase of \$2.3 million in FY 2018. The analysis of these changes related to the General Fund is further discussed in the fund financial statement analysis section on pages 13-14 of this MD&A.

- Loans principal payments of governmental activities were \$73.2 million during fiscal year 2019. Loans principal payments of business-type activities were \$0.3 million during the same fiscal year. Proceeds of \$20.0 million were received from a general obligation bond (\$15.0 million) and a note issued to CDL (\$5.0 million). Other long term liabilities amounted to \$23.6 million at June 30, 2019, for a total long-term debt of \$198.5 million as of same date, as compared to \$251.6 million in prior year.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide a broad overview of the Municipality in a corporate-like manner similar to private sector financial statements. The Statement of Net Position presents information on all the Municipality's assets and liabilities. This statement format combines and consolidates the governmental funds' current financial resources with capital assets (including infrastructure) and long-term obligations.

The Statement of Activities is focused on both the gross and net cost of various functions (including governmental and business-type), which are supported by the government's general tax and other revenues. This statement is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities.

The government-wide financial statements present information about the functions of the Municipality that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities reflect the Municipality's basic services, including police, garbage disposal, public works, transportation, and families, parks and recreation. Property, sales, municipal license taxes and federal and state contributions finance the majority of these services. The business-type activities reflect private sector type operations (Rio Bayamón Golf Course), where the fee for service typically covers all or most of the cost of operation, including depreciation.

### **Fund Financial Statements**

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

**Governmental Funds-** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

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

The Municipality maintains various individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet, and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, for the General Fund, Housing and Urban Development Programs, Health and Human Services Programs, Debt Service, and the Capital Improvement Projects Fund; all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The governmental fund financial statements immediately follow the government-wide financial statements.

The required supplementary information (other than MD&A) includes a budgetary comparison statement for the General Fund to demonstrate compliance with the annual budget as adopted and amended.

**Proprietary Funds.** The Municipality maintains only one individual enterprise funds. Information is presented separately in the Statement of Net Position, and in the Statement of Revenues, Expenses and Changes in Net Position, for the Rio Bayamón Golf Course, which is considered to be a major fund.

The proprietary fund financial statements immediately follow the governmental fund financial statements.

### **Notes to Financial Statements**

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

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

### **GOVERNMENT- WIDE FINANCIAL STATEMENT ANALYSIS**

The government-wide financial statements provide long-term and short-term information about the Municipality's overall financial condition. This analysis addresses the financial statements of the Municipality as a whole.

The following table reflects a summary of the Statement of Net Position compared to the prior year

**Table 1**  
**Statement of Net Position**  
**(in millions)**

	Governmental		Business		Total	
	Activities		Type		Primary	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current and other assets	\$134.3	\$141.1	\$3.3	\$2.7	\$137.6	\$143.8
Capital assets	<u>614.6</u>	<u>621.6</u>	<u>20.8</u>	<u>21.1</u>	<u>635.4</u>	<u>642.7</u>
<b>Total assets</b>	<u>748.9</u>	<u>762.7</u>	<u>24.1</u>	<u>23.8</u>	<u>773.0</u>	<u>786.5</u>
Current and other liabilities	53.0	52.0	0.1	0.1	53.1	52.1
Long-term debt outstanding	<u>193.2</u>	<u>246.0</u>	<u>5.3</u>	<u>5.6</u>	<u>198.5</u>	<u>251.6</u>
<b>Total liabilities</b>	<u>246.2</u>	<u>298.0</u>	<u>5.4</u>	<u>5.7</u>	<u>251.6</u>	<u>303.7</u>
Deferred inflows of resources	<u>0.5</u>	<u>0.2</u>	-	-	<u>0.5</u>	<u>0.2</u>
<b>Net Position:</b>						
Invested in capital assets	452.5	403.7	15.5	15.5	468.0	419.2
Restricted	29.4	50.2	0.0	0.0	29.4	50.2
Unrestricted	<u>20.3</u>	<u>10.6</u>	<u>3.2</u>	<u>2.6</u>	<u>23.5</u>	<u>13.2</u>
<b>Total Net Position</b>	\$502.2	\$464.5	\$18.7	\$18.1	\$520.9	\$482.6

### Normal Impacts

There are six basic (normal) transactions that will affect the comparability of the Statement of Net Position summary presentation.

**Net Results of Activities** – which will impact (increase/decrease) current assets and unrestricted net position.

**Borrowing for Capital** – which will increase current assets (i.e., cash), and long-term debt.

**Spending Borrowed Proceeds on New Capital** – which will reduce current assets and increase capital assets. There is a second impact; the spend down of borrowed proceeds increases related debt which has an offsetting effect on the increase in capital assets, and will not change the net investment in capital assets.

**Spending of Non-Borrowed Current Assets on New Capital** – which will (a) reduce current assets and increase capital assets, and (b) reduce unrestricted net position and increase net investment in capital assets.

**Principal Payment on Debt** – which will (a) reduce current assets and reduce long- term debt, and (b) reduce unrestricted net position and increase net investment in capital assets.

**Reduction of Capital Assets through Depreciation** – which will reduce capital assets and net investment in capital assets.

### **Current Year Impacts – Government Wide Statement of Net Position**

#### **Governmental Activities:**

In the Governmental Activities columns, the current and other assets are affected by the decision of the Puerto Rico Fiscal Agency and Financial Advisory Authority of offsetting the balances of the Municipality's bonds and notes escrows balances (\$20,489,320 as of November 29, 2018) against the outstanding principal of bonds and notes payable.

Current and other assets decreased by \$6.8 million, primary from the offsetting of escrows balances and an increase in operating grants and contributions (\$5.3 million) and an increase in property taxes revenue (\$6.5 million).

Capital Assets decreased by \$7.0 million mainly due to the excess of depreciation (\$24.6 million over the increase in capital assets during the year (\$17.6 million).

Long-term debt outstanding decreased by \$52.8 million as a result of payments of debt during the year (\$73.2 million) over new debts of \$20.4 million.

#### **Business-type Activities:**

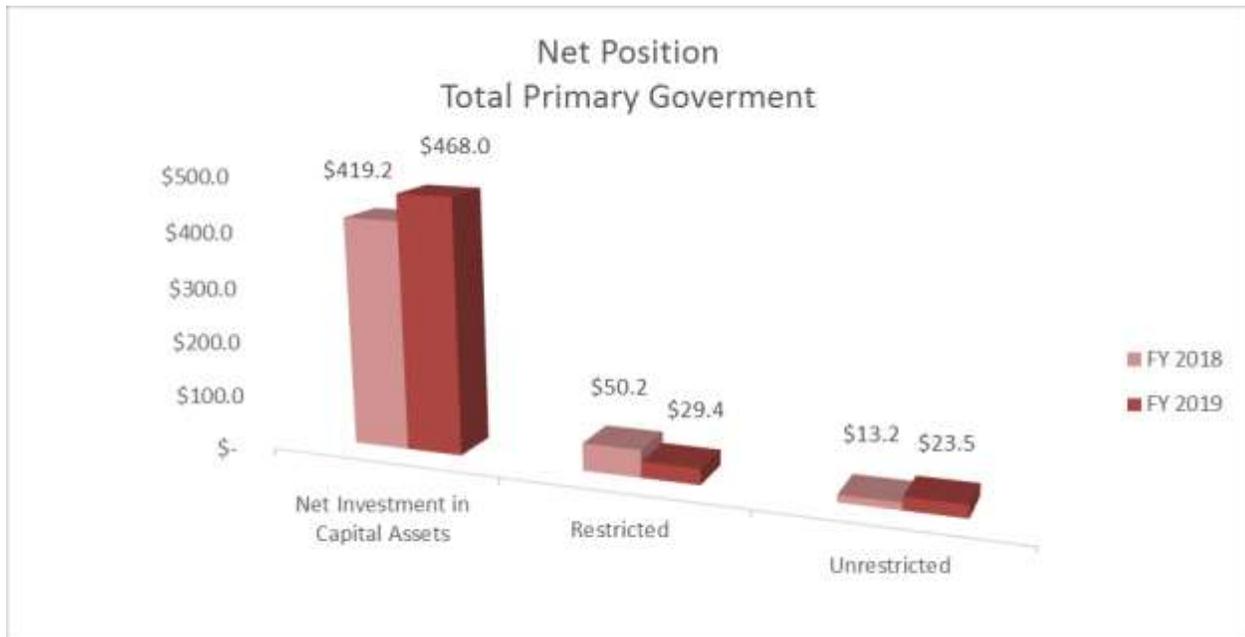
In the Business- type activities columns, current and other assets increased by 0.6 million due to an increased in cash and cash equivalents. Capital assets decreased by \$0.3 million mainly due to depreciation expense.

Total liabilities decreased by \$0.3 million due to payments of long-term debts.

#### **Net Position:**

Increases or decreases in net position may serve over time as a useful indicator of whether a government's financial position is improving or deteriorating. For the Municipality as the primary government, total assets exceeded total liabilities and deferred inflows of resources by \$520.9 million at the close of June 30, 2019. This is an increase of \$38.3 million from FY 2018 which was largely due to an increase in net investment in capital assets.

**NET POSITION  
Total Primary Government**



Approximately 90% of the Municipality's net position reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future revenues, since the capital assets themselves cannot be used to liquidate these liabilities. The total restricted net position of the Municipality (approximately 6%) represents resources that are subject to external restrictions on how the resources may be used. The remaining balance represents an unrestricted net position of approximately 4%.

The Municipality's net position increased by \$38.3 million during the current fiscal year. Such increase was mainly due to the net effect of a decrease in total assets (\$13.5 million) and a decrease in long-term debt outstanding (\$53.1 million).

The table below summarizes the statement of activities and the changes in net position for the current and previous year.

**Table 2**  
**Changes in Net Position**  
(in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$5.9	\$3.7	\$1.3	\$0.8	\$7.2	\$4.5
Operating grants and contributions	53.6	48.3	-	-	53.6	48.3
Capital grants and contributions	-	0.8	-	-	-	0.8
General revenues:						
Property taxes	70.7	64.2	-	-	70.7	64.2
Municipal license taxes	32.0	35.4	-	-	32.0	35.4
Sales and use taxes	30.5	29.0	-	-	30.5	29.0
Grants and contributions not restricted to specific programs	11.4	10.6	-	-	11.4	10.6
Interest fines and penalties	2.8	0.7	-	-	2.8	0.7
Other general revenues	<u>8.7</u>	<u>16.3</u>	-	-	<u>8.7</u>	<u>16.3</u>
<b>Total revenues</b>	<u>215.6</u>	<u>209.0</u>	<u>1.3</u>	<u>0.8</u>	<u>216.9</u>	<u>209.8</u>
<b>EXPENSES</b>						
General Government	\$82.7	\$84.3	\$0.0	\$0.0	\$82.7	\$84.3
Public Safety	6.8	8.9	0.0	\$0.0	6.8	8.9
Public Works	25.6	40.3	0.0	\$0.0	25.6	40.3
Culture	3.5	0.6	0.0	\$0.0	3.5	0.6
Recreation	7.0	8.1	0.0	\$0.0	7.0	8.1
Health and Welfare	51.5	47.8	0.0	\$0.0	51.5	47.8
Education	1.4	4.2	0.0	\$0.0	1.4	4.2
Interest on long-term debt	9.1	8.6	0.3	\$0.3	9.4	8.9
Rio Bayamón Golf Course	-	-	<u>1.3</u>	<u>\$2.1</u>	<u>1.3</u>	<u>2.1</u>
<b>Total expenses</b>	<u>187.6</u>	<u>202.8</u>	<u>1.6</u>	<u>2.4</u>	<u>189.2</u>	<u>205.2</u>
<b>Change in Net Position before extraordinary and special items</b>	28.0	6.2	(0.3)	(1.6)	27.7	\$4.6
Transfers	(0.9)	(2.4)	0.9	2.4	0	0.0
Recovery from insurance	10.6	0.0	0.0	0.0	10.6	0.0
Recovering of impairment loss on deposits with Governmental Bank	0.0	20.1	0.0	0.0	0.0	20.1
Loss on disposition of capital assets	<u>0.0</u>	<u>(0.3)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(.3)</u>
Change in Net Position	37.7	23.6	0.6	0.8	38.3	24.4
Net Position Beginning	<u>464.5</u>	<u>440.9</u>	<u>18.1</u>	<u>17.3</u>	<u>482.6</u>	<u>458.2</u>
Net Position Ending	<b>\$502.2</b>	<b>\$464.5</b>	<b>\$18.7</b>	<b>\$18.1</b>	<b>\$520.9</b>	<b>\$482.6</b>

## **Normal Impacts**

There are five basic (normal) impacts on revenues and expenses as reflected below.

### **Revenues:**

**Economic Condition** – which can reflect a declining, stable or growing economic environment and has a substantial impact on property, sales, municipal license or other tax revenue as well as public spending habits for building permits, and volumes of consumption.

**Increase/Decrease in Municipality approved rates** – while certain tax rates are set by statute, the Municipality (with approval from the Municipal Legislature) has significant authority to impose and periodically increase/decrease rates.

**Changing Patterns in Intergovernmental and Grant Revenue (both recurring and non-recurring)** – certain recurring revenues may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year to year comparisons.

### **Expenses:**

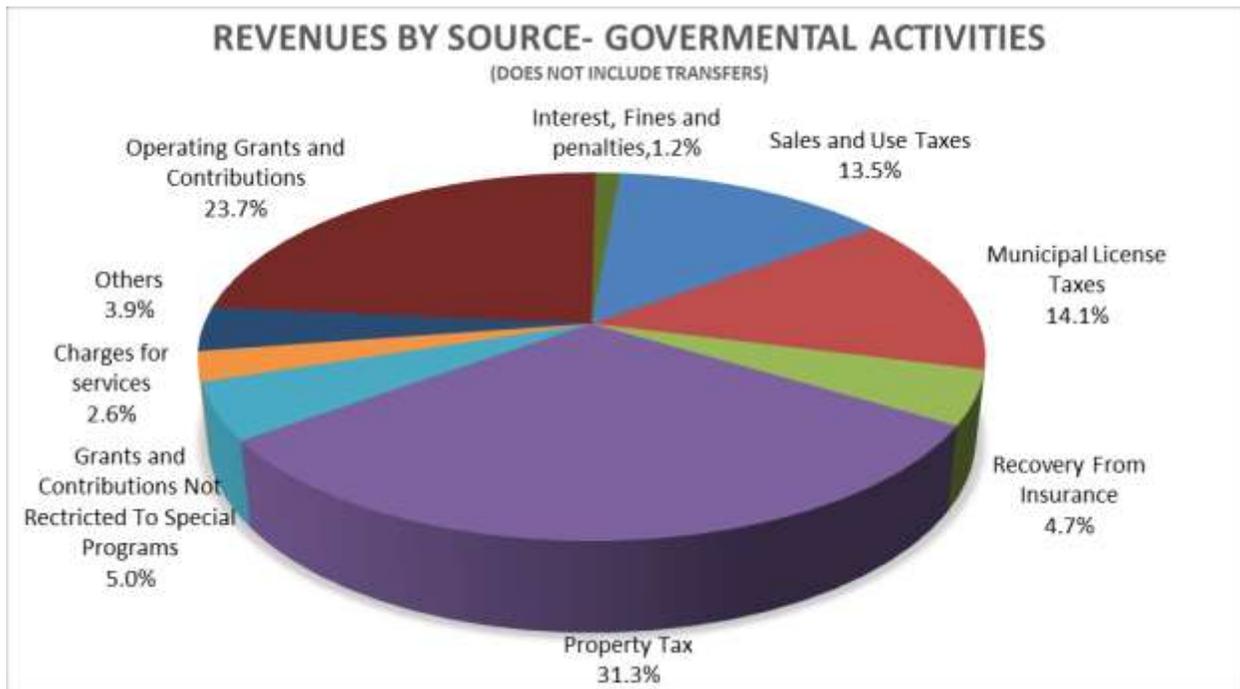
**Introduction of New Programs** – within the functional expense categories (Public Safety, Public Works, Health and Welfare, Parks and Recreation, etc.) individual programs may be added or deleted to meet changing community needs.

**Increase/Decrease in authorized Personnel** – changes in service demand may cause the Municipality to increase/decrease authorized staffing.

## **Current Year Impacts-Government Wide Statement of Activities and Changes in Net Position**

### **Governmental Activities:**

For FY 2019, the net position of the governmental activities increased by \$37.7 million, compared to an increase of \$23.6 million in FY 2018. The \$37.7 million increase included an increase of \$28.0 million from operations and an increase of \$10.6 million recovered from insurance. The pie chart on the next page highlights the sources of governmental activities revenue for fiscal 2019.



Total Revenues decreased by \$2.6 million resulting mainly from an increase of \$6.6 million in operations and a decrease of \$9.2 million of extraordinary and special items. Program revenues increased \$6.7 million and general revenues decreased by \$0.1 million. FY 2019 reported a revenue from recovery of insurance of \$10.6 million while FY 2018 reported a revenue of \$20.1 million from recovery of impairment loss on deposits with GDB and a loss on disposition of capital assets of \$0.3 million.

#### **Business-type Activities:**

For FY 2019, the net position of the business-type activities decreased by \$0.2 million, compared to an increase of \$0.7 million in FY 2018. Total revenues increased by \$0.5 million or 62.5 %. Expenses of the business-type activities decreased by \$0.8 million or 33.3%.

### **FUND FINANCIAL STATEMENT ANALYSIS**

#### **Governmental Funds**

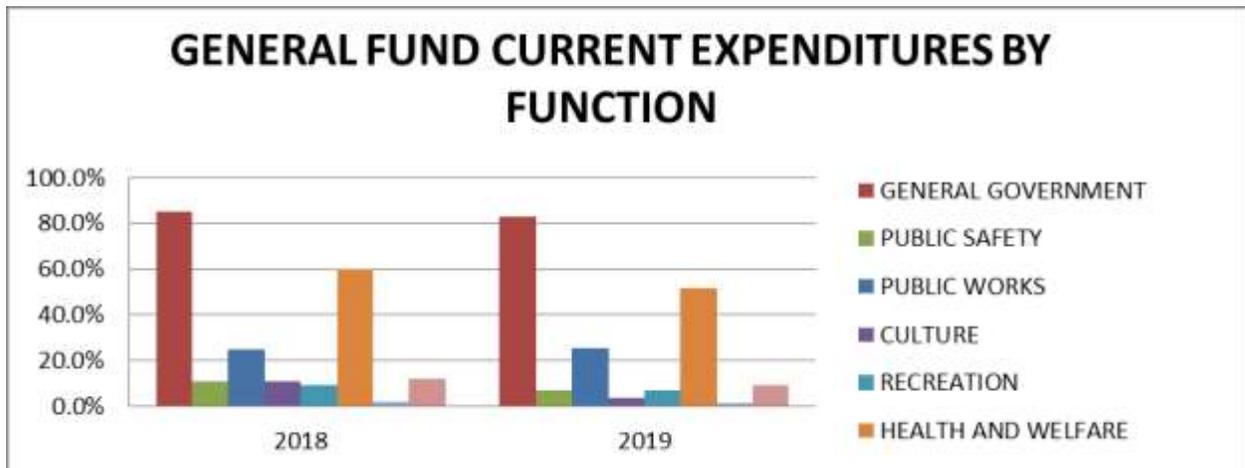
The fund financial statements for the governmental funds provide information on the near- term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Municipality's financing requirements. In particular, the unassigned and assigned fund balance is a useful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

The General Fund unassigned and assigned fund balance at June 30, 2019 was \$39.7 million, while the total fund balance was \$41.2 million. As a measure of the General Fund's availability of resources for the future use, it is useful to compare unassigned and assigned fund balances to total budgeted expenditures of the subsequent fiscal year. At year end, the unassigned and assigned fund balances in the General Fund represented 33.6% of the total FY "2019-2020" budgeted General Fund expenditures.

General Fund revenues totaled \$128.5 million a decrease of \$1.4 million or 1.1% of FY 2018 revenues. Property taxes increased by \$3.8 million. Sales and use taxes, licenses and permits, charges for services and rents and state contributions increased by \$3.3 million. On the other hand, municipal license taxes and other revenues decreased by \$8.6 million.

General Fund expenditures totaled \$124.0 million, a decrease of \$8.0 million or 6.1% from FY 2018.

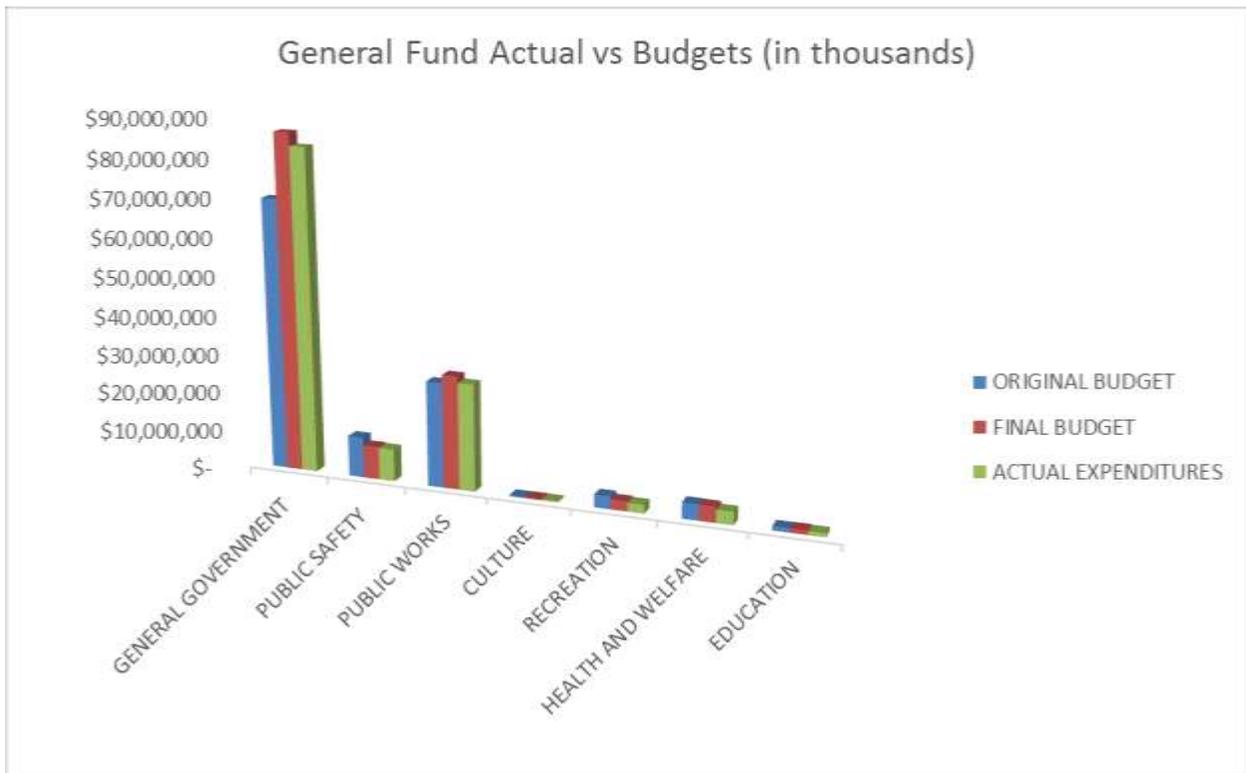
The chart below shows FY 2019 and FY 2018 General Fund expenditures by function:



The General Fund “net” other financing sources totaled \$9.7 million versus a “net” other financing uses of \$0.8 million in FY 2018. Transfers out of \$5.9 million to debt service (\$4.3 million), to capital project (\$0.7 million) and to proprietary fund (\$0.9 million), reduced a loan proceed (\$5.0 million) and a recovery from insurance (\$10.6 million).

### General Fund Budgetary Highlights

The following is a brief review of the budgeting changes from the original to final budget (refer to budgetary comparison schedule on page 86).

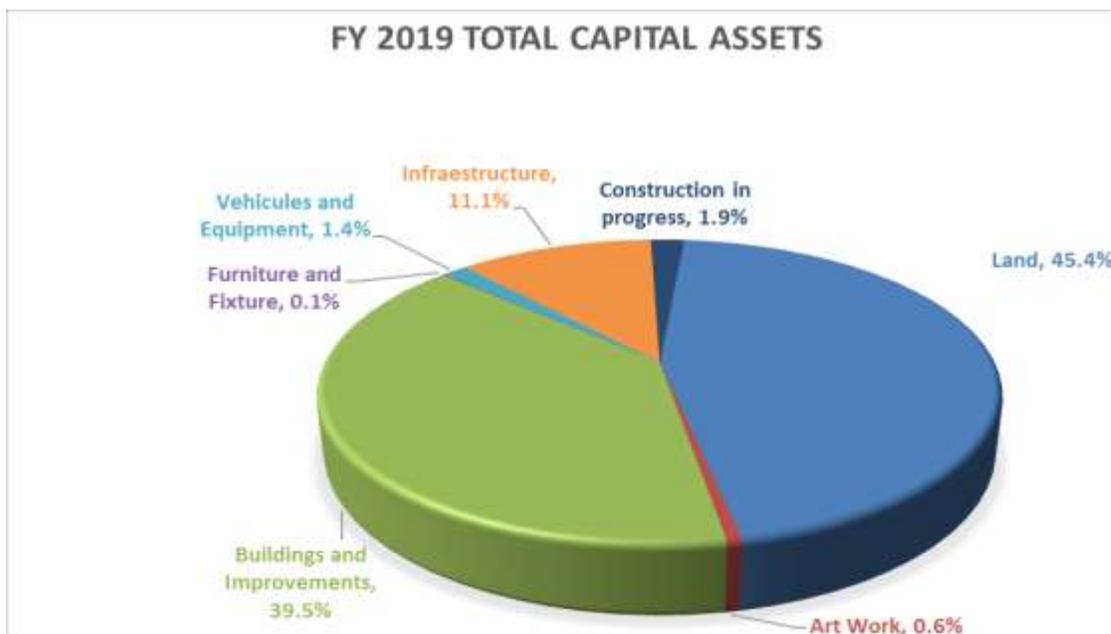


During the current year, the Municipal Legislature revised the Municipality’s budget increasing the original budget by \$16.0 million, which were reprogrammed from prior years fund balance. The current year operations resulted in \$9.1 million of excess revenues over expenditures.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2019, the Municipality had \$635.5 million invested in a variety of capital assets, which represents a net decrease (additions less retirements and depreciation) of \$7.2 million or 1.1% from the end of last year.



**Table 3**  
**Capital Assets at Year-end, in millions**  
**(Net of Depreciation)**

	<b>Governmental Activities</b>		<b>Business- Type Activities</b>		<b>Total</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Land	\$279.3	\$274.7	\$1.8	\$1.8	\$281.1	\$276.5
Art Work	3.6	3.5	-	-	3.6	3.5
Buildings and Improvements	243.0	247.7	19.0	19.3	262.0	267.0
Furniture and Mixtures	0.5	0.5	-	-	0.5	0.5
Vehicles and Equipment	8.7	9.1	-	-	8.7	9.1
Infrastructure	<u>68.0</u>	<u>79.7</u>	<u>-</u>	<u>-</u>	<u>68.0</u>	<u>79.7</u>
<b>Sub-total</b>	603.1	615.2	20.8	21.1	623.9	636.3
Construction in Progress	<u>11.5</u>	<u>6.4</u>	<u>0.1</u>	<u>0</u>	<u>11.6</u>	<u>6.4</u>
<b>Total</b>	<b><u>\$ 614.6</u></b>	<b><u>\$621.6</u></b>	<b><u>\$20.9</u></b>	<b><u>\$21.1</u></b>	<b><u>\$635.5</u></b>	<b><u>\$642.7</u></b>

The table below summarizes the change in Capital Assets, which is presented in Note 10 in the Notes to Financial Statements.

**Table 4**  
**Change in Capital Assets**  
**(in millions)**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Beginning balance	\$621.6	\$21.1	\$642.7
Additions	22.4	0.1	22.5
Retirements:			
CWIP	(4.8)	0.0	(4.8)
Other	(2.2)	0.0	(2.2)
Depreciation	(24.6)	(0.3)	(24.9)
Retirements *	<u>2.2</u>	<u>0.0</u>	<u>2.2</u>
Ending balance	<b><u>\$614.6</u></b>	<b><u>\$20.9</u></b>	<b><u>\$635.5</u></b>

\* Reduction in accumulated depreciation related to retirements.

The retirements in construction work-in-process (CWIP) is also reflected as an addition to Capital Assets. This year's major additions (including additions to CWIP) are shown below (in millions):

Land and land rights	\$5.1
Roads and other infrastructure improvements	6.5
Vehicle and equipment replacement	1.5

### Debt Outstanding

As of year-end, the Municipality had \$198.5 million in debt (bonds, notes, etc.) outstanding compared to the \$251.6 million last year. The components which had an impact on the Municipality's overall debt are shown below:

- Proceeds of \$20.0 million were received from a general obligation bond (\$15.0 million) and a note issued to CDL (\$5.0 million).
- The normal debt service principal payment of \$73.5 million.

See the Notes to Financial Statements on pages 59 through 66 for more detail on the Municipality's outstanding debt.

**Table 5**  
**Outstanding Debt at Year-end**  
**(in millions)**

<b>Governmental:</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Bonds Payable	\$152.5	\$205.3
Notes Payable - CRIM	2.4	2.5
Notes Payable - CDL	5.0	0.0
Note Payable - HUD	9.7	13.7
Claims and Judgments	0.7	0.7
Retirement System	1.3	1.3
PREPA	1.0	1.3
COFIM	6.6	7.6
Compensated Absences	<u>14.0</u>	<u>13.6</u>
	193.2	246.0
<b>Business Type:</b>		
Revenue Bond Payable	<u>5.3</u>	<u>5.6</u>
<b>Total</b>	<b><u>\$198.5</u></b>	<b><u>\$251.6</u></b>

The Municipality levies annual special tax of 2.75% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality plus the balances of the special ad valorem taxes in the debt service fund. The outstanding general obligation debt of the Municipality amounted to \$152.5 million and is below legal limitation.

The Municipality's other long-term liabilities will be paid with unrestricted funds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Legislature, which has 16 members. The Mayor and the Municipal Legislature are elected every four years in general elections.

The Municipality provides a full range of services including health, public works, environmental control, education, public safety, public housing and community development, culture and recreation as well as many other general and administrative services. The Municipality's principal sources of revenue are property taxes, municipal license taxes, sales and use taxes, contributions by the state government and federal grants.

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2020 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The above mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year "2019-2020" Amounts available for appropriations (revenues) in the General Fund Budget are \$118.0 million, which is \$1.4 million higher than the budget for fiscal year "2018-19". Municipal license taxes and other local taxes and charges for services, licenses and permits are expected to provide the revenues necessary to finance programs we currently offer. Budgeted expenditures are expected to be exceeded by budgeted revenues.

If those estimates are realized, the Municipality's budgetary General Fund balance is expected to be the same or to increase modestly by the close of fiscal year "2019-20".

For the business-type activities (Rio Bayamón Golf Course) the user pays a related fee or charge associated with the service.

## **FINANCIAL CONTACT**

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance Office on the 3<sup>rd</sup> floor of the City Hall, State Road #2, P.O. Box 1588, Bayamón, Puerto Rico 00960 -1588.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
<b>Assets</b>			
Cash and cash equivalents (Notes 2 and 4)	\$ 105,109,487	\$ 3,277,377	\$ 108,386,864
Certificates of deposit (Notes 2 and 4)	1,392,477		1,392,477
Accounts receivable:			
Municipal license taxes (Note 6)	507,998		507,998
Excise taxes	49,017		49,017
Sales and use tax	2,127,203		2,127,203
Rent, licenses, and permits	878,291		878,291
Other	875,840		875,840
Note receivable (Note 15)	7,070,000		7,070,000
Due from other agencies (Note 8)	16,259,189		16,259,189
Capital assets, net (Notes 2 and 10)	614,643,643	20,856,654	635,500,297
Total assets	<u>748,913,145</u>	<u>24,134,031</u>	<u>773,047,176</u>
<b>Liabilities</b>			
Account payable and accrued liabilities	8,117,885		8,117,885
Due to other agencies (Note 11)	12,854,703		12,854,703
Accrued interest	3,626,124	128,889	3,755,013
Unearned revenues:			
Municipal license taxes (Notes 6 and 12)	28,425,773		28,425,773
Noncurrent liabilities (Note 16):			
Due within one year	16,283,769	5,325,000	21,608,769
Due in more than one year	176,896,311	-	176,896,311
Total liabilities	<u>246,204,565</u>	<u>5,453,889</u>	<u>251,658,454</u>
<b>Deferred Inflows of Resources (Note 13)</b>			
Intergovernmental	457,619		457,619
Federal government	43,811		43,811
Total deferred inflows of resources	<u>501,430</u>	<u>-</u>	<u>501,430</u>
<b>Net Position</b>			
Investment in capital assets, net of related debt	452,480,573	15,531,654	468,012,227
Restricted for:			
Debt service	22,705,806		22,705,806
Capital projects	6,658,024		6,658,024
Unrestricted	20,362,747	3,148,488	23,511,235
Total net position	<u>\$ 502,207,150</u>	<u>\$ 18,680,142</u>	<u>\$ 520,887,292</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
General government	\$ 82,726,904	\$ 5,855,754	\$ -	\$ -	\$ (76,871,150)	\$ -	\$ (76,871,150)
Public safety	6,812,764				(6,812,764)		(6,812,764)
Public works	25,558,958			30,000	(25,528,958)		(25,528,958)
Culture	3,494,100				(3,494,100)		(3,494,100)
Recreation	7,025,953				(7,025,953)		(7,025,953)
Health and welfare	51,448,209		53,580,089		2,131,880		2,131,880
Education	1,351,723				(1,351,723)		(1,351,723)
Interest on long-term debt	9,105,617				(9,105,617)	(354,339)	(9,459,956)
Total governmental activities	<u>187,524,228</u>	<u>5,855,754</u>	<u>53,580,089</u>	<u>30,000</u>	<u>(128,058,385)</u>	<u>(354,339)</u>	<u>(128,412,724)</u>
<b>Business-Type Activities:</b>							
Río Bayamón Golf Course	<u>1,310,465</u>	<u>1,316,334</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,869</u>	<u>5,869</u>
<b>Total primary government</b>	<u>\$ 188,834,693</u>	<u>\$ 7,172,088</u>	<u>\$ 53,580,089</u>	<u>\$ 30,000</u>	<u>\$ (128,058,385)</u>	<u>\$ (348,470)</u>	<u>(128,406,855)</u>
General revenues:							
Property taxes (Note 5)					70,665,193		70,665,193
Municipal license taxes (Note 6)					32,046,641		32,046,641
Sales and use taxes (Note 7)					30,455,236		30,455,236
Grants and contributions not restricted to specific programs					11,444,452		11,444,452
Interest, fines, and penalties					2,827,740	9,461	2,837,201
Recovery from insurance					10,556,499		10,556,499
Miscellaneous					8,706,224		8,706,224
Transfers					(912,617)	912,617	-
Loss on disposition of assets					(21,783)		(21,783)
Total general revenues, and transfers					<u>165,767,585</u>	<u>922,078</u>	<u>156,133,164</u>
Change in net position					37,709,200	573,608	38,282,808
Net position at beginning of year					464,497,950	18,106,534	482,604,484
Net position at end of year					<u>\$ 502,207,150</u>	<u>\$ 18,680,142</u>	<u>\$ 520,887,292</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2019**

<u>Assets</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents <b>(Notes 2 and 4)</b>	\$ 68,857,760	\$ 2,010,295	\$ 861,894	\$ 22,705,806	\$ 6,658,024	\$ 4,015,708	\$ 105,109,487
Certificates of deposits <b>(Notes 2 and 4)</b>	77,477	1,315,000					1,392,477
Accounts receivable:							
Municipal license taxes <b>(Note 6)</b>	507,998						507,998
Excise taxes	49,017						49,017
Sales and use tax	2,127,203						2,127,203
Rent, licenses, and permits	1,091,376						1,091,376
Due from other agencies <b>(Note 8)</b>	14,213,103	687,581	615,729			742,776	16,259,189
Due from other funds <b>(Note 9)</b>	3,433,703						3,433,703
 Total assets	 <u>\$ 90,357,637</u>	 <u>\$ 4,012,876</u>	 <u>\$ 1,477,623</u>	 <u>\$ 22,705,806</u>	 <u>\$ 6,658,024</u>	 <u>\$ 4,758,484</u>	 <u>\$ 129,970,450</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2019**

<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Liabilities</b>							
Account payable and accrued liabilities	\$ 7,375,209	\$ 433,113	\$ 54,560	\$ -	\$ -	\$ 255,003	\$ 8,117,885
Due to other funds (Note 9)		612,175	503,511			2,318,017	3,433,703
Due to other agencies (Note 11)	12,854,703						12,854,703
Unearned revenues (Notes 6 and 12):							
Municipal license taxes	28,425,773						28,425,773
Total liabilities	<u>48,655,685</u>	<u>1,045,288</u>	<u>558,071</u>	<u>-</u>	<u>-</u>	<u>2,573,020</u>	<u>52,832,064</u>
<b>Deferred Inflows of Resources (Note 13):</b>							
Federal grants		30,423	13,388				43,811
Intergovernmental grants	457,619						457,619
Total deferred inflows of resources	<u>457,619</u>	<u>30,423</u>	<u>13,388</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,430</u>
<b>Commitments and Contingencies (Notes 22 and 23)</b>							
<b>Fund Balances (Note 17)</b>							
Restricted	407,320	2,937,165	906,164	22,705,806	6,658,024	1,412,923	35,027,402
Committed	1,138,832						1,138,832
Assigned	15,328,374					772,541	16,100,915
Unassigned	24,369,807						24,369,807
Total fund balances	<u>41,244,333</u>	<u>2,937,165</u>	<u>906,164</u>	<u>22,705,806</u>	<u>6,658,024</u>	<u>2,185,464</u>	<u>76,636,956</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 90,357,637</u>	<u>\$ 4,012,876</u>	<u>\$ 1,477,623</u>	<u>\$ 22,705,806</u>	<u>\$ 6,658,024</u>	<u>\$ 4,758,484</u>	<u>\$ 129,970,450</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

Total fund balances-governmental funds	\$	76,636,956
Amounts reported for governmental activities in the statement of net position are different because:		
• Capital assets, net used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		614,643,643
• Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. <b>(Note 3)</b>		(196,806,204)
• Some of the Municipality's revenues will be collected after year-ended, but no available soon enough to pay for the current period expenditures.		<u>7,732,755</u>
Net position of governmental activities	\$	<u><u>502,207,150</u></u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>							
Property taxes (Note 5)	\$ 43,987,232	\$ -	\$ -	\$ 28,934,353	\$ -	\$ -	\$ 72,921,585
Municipal license taxes (Note 6)	32,046,641						32,046,641
Sales and use taxes (Note 7)	25,035,325			5,419,911			30,455,236
Licenses and permits	3,317,129						3,317,129
Charges for service and rents	2,679,825					71,885	2,751,710
Intergovernmental revenues (Note 14):							
Federal grants and contributions		20,205,448	18,846,645			14,527,996	53,580,089
State contributions	11,444,452				30,000		11,474,452
Interest, fines, and penalties	356,203			2,397,720	73,817		2,827,740
Other revenues	9,637,074	6,504	44,829		1,000	133,395	9,822,802
Total revenues	<u>128,503,881</u>	<u>20,211,952</u>	<u>18,891,474</u>	<u>36,751,984</u>	<u>104,817</u>	<u>14,733,276</u>	<u>219,197,384</u>
<b>EXPENDITURES</b>							
Current:							
General government	78,692,197	6,504				1,813,013	80,511,714
Public safety	6,654,866	68				30,863	6,685,797
Public works	26,811,156	803				54,793	26,866,752
Culture	359,919					2,851,188	3,211,107
Recreation	2,207,141						2,207,141
Health and welfare	6,226,064	17,241,093	18,512,302			8,900,048	50,879,507
Education	918,983						918,983
Capital outlays					597,203	457,192	1,054,395
Debt service:							
Principal retirement	1,660,000	2,000,000		65,720,449	2,570,380		71,950,829
Interest and other	441,569	294,269		8,743,473			9,479,311
Total expenditures	<u>123,971,895</u>	<u>19,542,737</u>	<u>18,512,302</u>	<u>74,463,922</u>	<u>3,167,583</u>	<u>14,107,097</u>	<u>253,765,536</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,531,986</u>	<u>669,215</u>	<u>379,172</u>	<u>(37,711,938)</u>	<u>(3,062,766)</u>	<u>626,179</u>	<u>(34,568,152)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Loan proceeds	5,000,000			15,000,000			20,000,000
Transfers in	12,519,148			16,830,257	652,000		30,001,405
Transfers out	(17,482,257)			(12,519,148)			(30,001,405)
Transfers to proprietary fund	(912,617)						(912,617)
Recovery from insurance	10,556,499						10,556,499
Total other financing sources (uses)	<u>9,680,773</u>	<u>-</u>	<u>-</u>	<u>19,311,109</u>	<u>652,000</u>	<u>-</u>	<u>29,643,882</u>
<b>EXTRAORDINARY ITEM</b>							
Recovering of impairment loss on deposits	-			-			-
Total extraordinary item	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	14,212,759	669,215	379,172	(18,400,829)	(2,410,766)	626,179	(4,924,270)
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>27,031,574</u>	<u>2,267,950</u>	<u>526,992</u>	<u>41,106,635</u>	<u>9,068,790</u>	<u>1,559,285</u>	<u>81,561,226</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 41,244,333</u>	<u>\$ 2,937,165</u>	<u>\$ 906,164</u>	<u>\$ 22,705,806</u>	<u>\$ 6,658,024</u>	<u>\$ 2,185,464</u>	<u>\$ 76,636,956</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Net change in fund balances - total governmental funds \$ (4,924,270)

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

- Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 17,652,316
- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (3,586,055)
- Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (24,617,235)
- Governmental funds report issuance of long-term debt as other financial sources because provides current financial resources. (20,000,000)
- Governmental funds report principal payments on long-term obligations as expenditures, whereas the principal payments reduces the long-term obligations in the statement of activities. 71,950,829
- Governmental funds report proceeds received in the disposal of assets. In the statement of activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of disposal assets. (21,783)
- Change in accrued interest expense which does not require the use of current financial resources. 373,694
- Repayment of long-term debt is an expenditures in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:
  - COFIM 1,001,495
  - AEE 268,107
- Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds:
  - Compensated absences (367,898)
  - Claims and judgments (20,000)

Changes in net position of governmental activities \$ 37,709,200

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2019**

**Río Bayamón  
Golf Course**

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**Assets**

Current assets:	
Restricted cash in commercial banks <b>(Notes 2 and 4)</b>	\$ 3,277,377
Non-current assets:	
Capital assets, net <b>(Note 10)</b>	20,856,654
Total assets	24,134,031

**Liabilities and Net Position**

Current liabilities:	
Accrued interests	128,889
Non-current liabilities:	
Due within one year	5,325,000
	5,325,000
Total liabilities	5,453,889
<b>Net Position</b>	
Net investment in capital assets	15,531,654
Unrestricted	3,148,488
Total net position	\$ 18,680,142

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Río Bayamón Golf Course</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,316,334
Total operating revenues	<u>1,316,334</u>
<b>OPERATING EXPENSES</b>	
Salaries	100,472
Fringe benefits	7,713
Maintenance and repairs	866,315
Depreciation ( <b>Note 10</b> )	335,965
Total operating expenses	<u>1,310,465</u>
Operating loss	<u>5,869</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interests revenues	9,461
Interests paid revenue bond	(354,339)
Total non-operating revenues (expenses)	<u>(344,878)</u>
Loss before transfers	<u>(339,009)</u>
<b>TRANSFER FROM GENERAL FUND</b>	<u>912,617</u>
<b>CHANGE IN NET POSITION</b>	<u>573,608</u>
<b>TOTAL NET POSITION, BEGINNING</b>	<u>18,106,534</u>
<b>TOTAL NET POSITION, ENDING</b>	<u>\$ 18,680,142</u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Río Bayamón Golf Course</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,316,334
Interests received	9,461
Interests paid on mortgage	<u>(423,012)</u>
Net cash provided by operating activities:	<u>902,783</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of property	<u>(50,305)</u>
Net cash used by investing activities	<u>(50,305)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Principal paid on revenue bond	<u>(280,000)</u>
Net cash used in financing activities:	<u>(280,000)</u>
<b>NET INCREASE IN CASH</b>	572,478
<b>CASH AT BEGINNING OF YEAR</b>	<u>2,704,899</u>
<b>CASH AT THE END OF YEAR</b>	<u><u>\$ 3,277,377</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Change in net position	<u>\$ 573,608</u>
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation	335,965
Decrease in accrued interests	<u>(6,790)</u>
Total adjustments	<u>329,175</u>
Net cash provided by operating activities	<u><u>\$ 902,783</u></u>

The accompanying notes are an integral part of these basic financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**1. ORGANIZATION**

The Municipality of Bayamón, Puerto Rico, (Municipality) was founded in 1772. The Municipality is a political legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession existence and legal identity, separate and independent from the central government of the Commonwealth of Puerto Rico. The Municipality provides a full range of services including: public safety, public works, culture, recreation, health and welfare, education, and other miscellaneous services.

The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 16 members. The members of these branches are elected every four years in the Puerto Rico general elections.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Municipality have been prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**a. Financial Reporting Entity**

The financial reporting entity included in this report consists of the financial statements of the Municipality (the primary government). A primary government is any state government or general purpose local government. 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 data should be included with the financial data of the primary government. Component units are legally separate organizations for which the primary government is financially 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 financial statements to be misleading or incomplete. A component unit may be a governmental organization, a nonprofit corporation or a for-profit corporation.

The following circumstances set forth a primary government's financial accountability for a legally separate organization:

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

- 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.

In addition, as described above, it would be necessary to include other organizations as a component unit if the exclusion would cause the primary government's financial statements to be misleading or incomplete. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units:

- 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.

Professional judgment should be applied in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet the above criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete.

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

- 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 government.
- 2) The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government.
- 3) The component unit's debt is expected to be paid by the primary government.

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

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

**b. Basis of 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, notes to the 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:

- 1) Management's Discussion and Analysis - This consists of a narrative introduction and analytical overview of the Municipality's financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.
- 2) Basic Financial Statements - Basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by taxes and intergovernmental revenues.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

- Government-Wide Statements - The government-wide 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 recognized in the period in which the associated liability is incurred. 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.

Statement of Net Position - The Statement of Net Position incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. 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 expenses, including depreciation, by related program revenues, operating grants and contributions. Program revenues must be directly associated with the function.

The types of transactions included as program revenues are charges for services and fees and 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. Revenues on operating grants are recognized when all eligibility requirements (which include time requirements) imposed by the provider have been met. For expenditure-driven grants, revenue is recognized after allowable expenditures are incurred. As a policy, indirect expenses in the Statement of Activities are not allocated. The Municipality first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The Municipality reports a liability for unearned revenues in the government-wide statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The government-wide statements are divided into two categories:

*Governmental Activities:* Most of the Municipality's basic services are reported here including: public works and sanitation, public safety, culture and recreation, housing, welfare, and community development, education and general administration. These activities are primarily finance through property taxes, other local taxes and intergovernmental revenues. Included In the governmental activities are the governmental funds.

*Business-type Activities:* Business-type activities charges fees to customers to finance the costs of their activities. The activities of Río Bayamón Golf Course (the only business-type activity) are included here.

- Fund Financial Statements - 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 each major fund and one column combining all non-major governmental funds. Major funds are determined based on a minimum criterion, that is, a percentage of the assets and deferred outflows; liabilities and deferred inflows; revenues or expenditures or based on the Municipality's official's criteria if the fund is particularly important to financial statement users.

The Municipality reports the following major governmental fund:

- General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

- Housing and Urban Development Programs (HUD Programs)

This fund account for revenues sources for the development of viable urban communities, decent housing, suitable living environment, rental assistance to help very low-income families afford decent, safe and sanitary housing by encouraging property owners to rehabilitate substandard housing and lease the units with rental subsidies to low-income family.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

▪ Health and Human Services Programs (HHS Programs)

This fund account for revenues sources to provide essential human services such as health insurance for elderly and low-income people, improving maternal and infant health, pre-school education and services, prevent child abuse and domestic violence and medical and social science research including the prevention of the outbreak of infectious disease and immunization services.

▪ Debt Services Fund

This fund is used to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

▪ Capital Projects Fund

This fund is used to account for the financial resources used for the acquisition and construction of major capital facilities, financed with the proceeds of general obligation bonds.

The governmental funds reported in the fund financial statements 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 90 days of the end of the current fiscal period.

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, allowable expenditures must be incurred 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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

cases, revenues are recognized as the time of receipt or earlier if the susceptible to accrual criteria is met.

The Municipality reports a liability for unearned revenues in the governmental funds statements. Unearned revenues arise when (1) resources received in advance of an exchange transaction and (2) resources received in advance related to voluntary non-exchange transactions when eligibility requirements other than time requirements have not been met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred). In subsequent periods, after related exchange transactions occur or applicable eligibility requirements are met the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Expenditures are generally recognized when the related liability is incurred as under accrual basis of accounting. Certain exceptions to this fundamental concept include 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 government-wide statements the expense and related accrual liability for long term portions of debt must be included).

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

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

- 3) Notes to Financial Statements – The notes to financial statements provide information that is essential to a user’s understanding of the basic financial statements.
- 4) Required Supplementary Information (RSI) – The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund.
- 5) Proprietary Funds – Proprietary fund financial statements are accounted for using the economic resources measurement focus and the accrual basis of accounting, as

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

the business-type activities in the government-wide financial statements. Under this method of accounting, revenues are recorded when earned, independently when are collected, and expenses are recorded when incurred, independently when are paid. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the funds include the cost of operations and maintenances, administration and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The proprietary fund statements include a Statement of Net position, a Statement of Revenues and Changes in Net Position and a Statement of Cash Flows.

The Municipality's proprietary funds consist of one enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing good and services be financed or recovered primarily through used charges. Major Enterprise funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenses or based on the Municipality's official's criteria of the fund is particularly important to financial statement users.

The Municipality reports the following major enterprise fund:

The Río Bayamón Golf Course (the Municipal Enterprise), accounts for the operations that are financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation) be financed or recovered primarily through user charges, where the Municipality has decided that periodic determination of revenues earned and expenses incurred is appropriate.

**c. Cash and Cash Equivalent**

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. Cash and cash equivalents in debt services fund represents special additional property tax collections withheld by the Commonwealth of Puerto Rico and restricted for the payment of the Municipality's debt service, as established by law. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD).

Deposit in the capital projects fund represents of unused proceeds from appropriations from the Legislative Assembly of Puerto Rico, for the payment of current liabilities, and

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

bonds and notes issued for the acquisition and construction of major capital improvements.

**d. Restricted Assets**

Restricted assets are liquid assets which have third-party limitations on their use. The Municipality reports as restricted deposit with Governmental Bank the undisbursed proceeds of grants which are maintained in a cash custodian account by the Government Development Bank of Puerto Rico (“GDB”).

**e. Receivables**

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from pass-through grantor represent amounts owed to the Municipality for the reimbursement of expenditures incurred.

**f. Interfund Receivables and Payables**

The Municipality reports inter-fund loans which 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.

**g. Inventories**

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

**h. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets’ sidewalks, and drainage system), are reported in the applicable governmental or component units’ columns in the government-wide financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation in capital assets is calculated on the straight-line basis over the following estimated usefully lives:

	<u>Useful Life</u>
Infrastructure	25-50 years
Buildings and building improvements	20-50 years
Furniture and fixtures	5-10 years
Vehicles and equipment	5-20 years

The Municipality periodically evaluates its capital assets to consider events or changes in circumstances that may give rise to asset impairment. Among the factors considered by management as part of its evaluation are: physical damages to an asset where action would be needed to restore lost service utility, changes in laws, regulations, or other environmental factors that may negatively affect service utility, technological developments that may negatively affect service utility, changes in the manner or duration of use of a capital asset that may negatively affect its service utility, and stoppage of construction or development of an asset.

Any impairment adjustment to the carrying value of a capital asset would be treated as a proportionate reduction of both the reported value of the asset and its accumulated depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset.

**i. Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has three items that qualify for reporting in this category:

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

- 1) Government-mandated or voluntary non-exchange transactions received before the time requirements have been met – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the Balance Sheet of the governmental funds and in the government-wide Statement of Net Position. The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
- 2) Unavailable revenue reported under the modified-basis of accounting – Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.
- 3) Deferred outflows/inflows of resources related to pensions – Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

**j. Unearned Revenues**

In the governmental fund financial statements, unearned revenue arises when one of the following situations occur:

- 1) Potential revenue does not meet both the “measurable” and “available” criteria for revenue recognition in the current period (reported as *earned and unavailable revenue*” in the accompanying balance sheet-governmental funds). As previously discussed, available is defined as due (or past due) at June 30, 2019 and collected within 60 days thereafter to pay obligations due at June 30. In subsequent periods, when both criteria (measurable and available) are met, the liability for unearned revenue is removed and revenue is recognized.
- 2) The Municipality receives resources before it has a legal claim to them (reported as *unearned revenue*” in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

**k. Long-Term Obligations**

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

Related bond issuance costs, whenever arise, 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.

**l. 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.

**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. These include restrictions that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or restrictions imposed by the law through constitutional provisions or enabling legislation.

**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.

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**m. Net Position Flow Assumption**

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

**n. 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:

- 1) *Nonspendable* - Amounts that cannot be spent because are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- 2) *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.
- 3) *Committed* - Amounts that can be used only for the specific purposes imposed through formal resolutions by the Municipal Legislature. Those committed amounts cannot be used for any other purposes unless the highest level of decision-making authority of the Municipality removes or changes the specified use by taking the same type of action (formal resolution) it employed to commit those amounts. Formal action to commits fund balance to a specific purpose should occur prior to the end of the fiscal year, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.
- 4) *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 Municipality's highest level of decision-making authority, the Municipal Legislature. 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

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of all governmental funds with positive fund balances. Action taken to assign fund balance may be made after year-end.

- 5) *Unassigned* - Is the residual classification and includes all spendable amounts not restricted, committed or assigned. 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.

Negative fund balance amounts are assigned amounts reduced to eliminate the deficit. Consequently, negative residual amounts in restricted, committed, and assigned fund balance classification have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that indicate 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 any formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2019.

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

The classification of the Municipality's individual governmental funds among general, debt service, special revenue, and capital projects fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB No. 54.

**o. Fund Balance Flow Assumptions**

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

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**p. Risk Financing**

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at the own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality's commercial insurance coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality's management makes the selection based on coverage and price. The total cost of the annual premiums was paid directly to the insurance company during the year.

The Municipality obtains workers' compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. The 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, 2019 amounted to \$1,479,335.

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

**q. Fair Value of Financial Instruments**

The Municipality adopted the provisions of GASB Statement No. 72, *Fair Value Measurements and Application*. The fair value measurements made in the accompanying financial statements assume that transactions take place in the Municipality's principal market, or the Municipality's most advantageous market in the absence of a principal market. Fair values have been measured assuming that general market participants would act in their economic best interest.

To determine a fair value measurements, fair values have not been adjusted for transaction costs and the Municipality has considered the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated

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or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards.

The Municipality has used valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair values. The techniques applied are consistent with one or more of the following approaches: (1) the market approach, (2) the cost approach, or (3) the income approach.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques have been applied consistently, though a change may be appropriate in certain circumstances.

The fair value measurements applied by management takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, the Municipality uses the fair value of that asset to measure the fair value of the liability.

The Municipality's financial instruments consist of cash and cash equivalents, accounts and loans receivable, other assets, accounts payable and accrued liabilities, bonds and notes payable and other long-term obligations.

The three levels of the fair value hierarchy are described as follows:

**Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we can access.

**Level 2** – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; or
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for a substantial portion of the full term of the asset or liability.

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**Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Based on the criteria set forth above, the Municipality has classified its financial instruments as Level 2 instruments as of June 30, 2019.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Municipality's valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The observability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer would be reported at the beginning of the fiscal year. For the fiscal year ended June 30, 2019, there were no transfers from Level 2 to other categories.

The following methods and assumptions were used to estimate the fair values of the most significant financial instruments at June 30, 2019. There have been no changes in valuation methods.

For cash in commercial banks and deposits with governmental bank, accounts and loans receivable, other assets and accounts payable and accrued liabilities, their respective estimated fair values approximate their carrying amounts recorded in the accompanying financial statements. The cost or contract value (net realizable value of assets and estimated settlement amounts of liabilities) was used to determine their respective fair values of these assets and liabilities due to their short-term nature and maturity periods. In the case of cash equivalents, these assets are generally acquired and renewed at the prevailing market interest rates for this type of instruments and have no contractual restrictions or liens.

For bonds payable, notes payable and other long-term obligations, the estimated fair values also approximate carrying amounts. These obligations have been incurred at the prevailing market interest rates and terms for these types of instruments, accordingly, the Municipality determined their fair values using valuation models that use observable market quotes.

Fair value reporting requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The judgments made in determining the estimated fair value assigned to each financial instrument is significant and can materially impact the changes in net position and fund balances of the Municipality. The

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valuations are based on information available at June 30, 2019 and are based on expectations and assumptions that have been deemed reasonable by management.

Estimates developed using alternate are subjective, requiring significant judgments such as the amount and timing of future cash flows and the selection of appropriate discount rates that reflects market and credit risk.

The preceding valuation methods described may produce a fair value calculation that may not be indicative of net realizable or reflective of future fair values. Furthermore, while management believes that the Municipality's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

However, the estimated fair values and carrying values of the Municipality's financial instruments were not considered significant by management at June 30, 2019.

**r. Compensated Absences**

Employees are entitled to 30 days vacations leave and 18 days sick leave per year. Sick leave is recorded as expenditure in the year paid. Employees are entitled to payment of unused sick leave upon retirement if have been employed for at least 10 years in the municipal government. On July 1997, state Law 152 supra amended the Article 12.016, Section b (2) of the Municipal Law, authorizing the Municipality to pay any excess of vacations and sick leave accumulated over the maximum previously permitted by law. Calculations must be made until December 31 of every year. Excess of sick leave must be paid until March 31 next every natural year. Excess of vacations can be paid after July 1 of every fiscal year.

**s. Claims and Judgments**

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

**t. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The unencumbered balance of any appropriation of the General Fund at

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the end of the fiscal year lapses immediately. Appropriations, other than in the General Fund, 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.

**u. Use of Estimates**

The preparation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The most significant estimates consist of the contribution received from the Puerto Rico Electric Power Authority caused by the delay of the notification of the actual revenues and expenditures to the presented in the financial statements of the agencies mentioned above.

**v. Accounting for Pension Costs**

Effective on July 1, 2017, the Municipality and other participants of the ERS converted to a new "PayGo" model. Under the "PayGo" funding, the participant employers directly pay the pension benefits as they are due rather than attempt to build up assets to pre-fund future benefits. "Paygo" payments are recorded as expenditures\expenses in the financial statements.

At that date, the Municipality's pension costs accounting transitioned from **GASB Statement No. 68** to the requirements of **GASB Statement No. 73** "*Accounting and Financial Reporting For Pensions and Related Assets That Are Not Within The Scope of GASB No. 68*". Accordingly, pension costs are reported based on the employer total pension liability, pension expense and deferred outflows/inflows of resources reported by the ERS. For purposes of measuring, pension costs have all been determined on the same basis as they are reported by the ERS.

**w. Accounting for Other Postemployment Benefits ("OPEB")**

GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" is effective for the Municipality starting on July 1, 2017. As required by the accounting pronouncement, OPEB transactions should be accounted based on its proportional share of the collective net OPEB liability, OPEB expense and deferred outflows/inflows of resources reported by the Plan. For purposes of measuring, OPEB costs should have all been determined on the same basis as they are reported by the Plan. The ERS has not issued its 2018 basic financial statements, nor has it provided to the Municipality with the required information to implement the referred

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accounting pronouncement. The Municipality's contribution for OPEB is included as part of the "Paygo" charges billed on a monthly basis by the Puerto Rico Department of Treasury ("PRDT"). "Paygo" payments are recorded as expenditures\expenses in the financial statements.

**x. Future Adoption of Accounting Pronouncements**

The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

<b>Statement Number</b>	<b>Statement Name</b>	<b>Adoption Required in Fiscal Year</b>
84	Fiduciary Activities	2019-20
87	Leases	2020-21
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2019-20
90	Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61	2019-20
91	Conduit Debt Obligation	2021-22
92	Omnibus 2020	2020-21

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

**3. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The governmental fund balance sheet includes reconciliation between fund balance-governmental funds and net position of governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the approximately \$196.8 million difference are as follows:

Bonds payable	\$ 152,463,070
Notes payable	17,081,159
Compensated absences	14,009,365

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Municipal Finance Corporation (COFIM)	\$ 6,545,792
Accrued interests	3,626,124
Retirement system	1,343,861
AEE	1,041,833
Claims and judgments	<u>695,000</u>
 Net adjustment to reduce fund balance governmental funds to arrive at net position of governmental activities	 <u>\$ 196,806,204</u>

**4. CASH AND CASH EQUIVALENTS IN COMMERCIAL BANKS**

The Municipality maintains its deposits in a commercial bank located in Puerto Rico. The Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit contracts with financial institutions. Following is essential information about: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, (4) foreign exchange exposure.

**Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as its custodial credit risk policy, the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico. Accordingly, the Municipality is only allowed to invest its obligations of the Commonwealth, obligations of the United States of America, certificates of deposit and commercial paper. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments for which credit risk exposure may be significant. Therefore, the Municipality’s management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality’s deposits is considered low at June 30, 2019.

**Interest rate risk** – This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt investments in its investments portfolio at June 30, 2019, (2) limiting the weighted average maturity of its investments to periods of three months or less and (3) keeping most of its banks deposits in interest bearing accounts generating interest at prevailing market rates. At June 30, 2019, the interest rate risk associated with the Municipality’s cash and cash equivalent is considered low.

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

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All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk. At June 30, 2019, the bank balances of deposits were follows:

	Deposits Balance						Total
	General	HUD Programs	HHS Programs	Debt Services	Capital Project	Other Governmental	
Deposits in							
commercial banks	\$ 68,857,760	\$ 2,010,295	\$ 861,894	\$ 22,705,806	\$ 6,658,024	\$ 4,015,708	\$ 105,109,487
Certificates of deposits	77,477	1,315,000	-	-	-	-	1,392,477
	<u>\$ 68,935,237</u>	<u>\$ 3,325,295</u>	<u>\$ 861,894</u>	<u>\$ 22,705,806</u>	<u>\$ 6,658,024</u>	<u>\$ 4,015,708</u>	<u>\$ 106,501,964</u>

The *Puerto Rico Fiscal Agency and Financial Advisory Authority* ("AAFAF") was created pursuant Act No. 21 of 2016 and Act 2 of 2017 as an independent public corporation and governmental instrumentality to assume all fiscal agency, financial advisory, and reporting functions of Government Development Bank (GDB). Following the certification of GDB's fiscal plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement ("RSA"), (as amended), which provides for the restructuring of a significant portion of GDB's liabilities ("Participating Bond Claims" as defined by the RSA). The Municipality's deposits at GDB, which were uninsured and uncollateralized, were subject to the provisions of the RSA.

As of June 30, 2019, the Municipality's bank balance of deposits amounted to \$314,980 in the capital project fund. On November 29, 2018 AAFAF issued a certification pursuant to Article 501 of Act No. 109-2017 applying the full cash amount held on GDB, against the loan balances owed by the Municipality to GDB. According to the AAFAF certification, the balances of the Municipality's bonds and notes escrows balances as of November 29, 2018, amounted to \$20,489,320, which were offset against the outstanding principal of bonds and notes payable.

The Municipality has concluded that as of June 30, 2019, the custodial credit risk associated with cash in commercial banks is considered low.

**Foreign exchange risk** – This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2019.

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**5. PROPERTY TAXES**

The Municipal Revenues Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment, levy and collection of all real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made in a return which must be filed with the CRIM by May 15 of each year. The tax on real property is assessed by the CRIM. The assessment is made as of January 1 of each year and is based on estimated current values of the property as of year 1957. The tax on personal property must be paid in full together with the return on or before May 15. The tax on real property is due in two equal installments in July 1 and January 1, following the assessment date.

The rates are 9.58% for real property and 7.58% for personal property. The composition is as follows:

	<u>Real</u>	<u>Personal</u>
Basic property	6.00%	4.00%
Additional special property - state	1.03%	1.03%
Additional special property – municipal	2.75%	2.75%
Discounts made by state to tax payer	< <u>.20%</u> >	< <u>.20%</u> >
	<u>9.58%</u>	<u>7.58%</u>

The Municipality's basic property tax rate represents the portion which is appropriated for general purposes and accounted for in the general fund.

The "Additional special property tax - municipal" is restricted for debt service and retained by GDB for such purposes and it is recorded as revenue in the Debt Service Fund when collected by the CRIM and reported to the Municipality.

The "Additional special property tax - state" is collected by the CRIM for the payment of principal and interest of general obligation bonds and certain other obligations issued by the state government.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempted amounts, the Department of Treasury assumes payment of the basic tax to the Municipality, except for property assessed at less than \$3,500, for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the General Fund when payments are received from the CRIM.

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Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to merchants with an annual volume of net sales less than \$150,000. Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a 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. This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30.

Currently, the Municipality has received the final settlement from CRIM related to fiscal year 2018-19. Based on the final settlement already received, during the year ended June 30, 2019, the amount collected by CRIM exceeded the amount advanced by CRIM from taxpayers and charges for the same period by \$2,768,651. Such amount is presented as due from CRIM in the accompanying financial statements. (See Note 8)

**6. MUNICIPAL LICENSE TAXES**

Municipal license taxes receivable is recorded in the fiscal year in which payment is due and, accordingly, represent taxes which are due and uncollected at June 30, 2019. The annual Municipal License Tax is determined based on the gross income of all commerce and industrial organizations that have operations in the Municipality of Bayamón and are not totally or partially exempt under the Industrial Incentive Law of Puerto Rico.

An annual return of business volume should be filed on or before April 15 of each year and payable in two equal installments due on July 1 and January 1. A discount of 5% is allowed when full payment is made on or before April 15. The rates of municipal license in the Municipality of Bayamón, are as follows:

Financial institutions	=	1.5%
Other organizations	=	.5%

The amounts collected in advance are recorded as deferred inflow of resources in the General Fund. The Municipality invoiced and collected in advance during the current year approximately \$28.4 million, corresponding to the next fiscal year municipal license.

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**7. SALES AND USE TAXES**

The Municipality imposes a municipal sales and usage tax within the territorial limits of the Municipality. This is a derived tax applied to the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. It is collected on a monthly basis through a tax return that is due ten calendar days after the end of each month.

On January 24, 2014, Act No.18, known as Municipal Administration Fund Act (Act No. 18), and Act No. 19, known as Municipal Finance Corporation Act, (Act No. 19) were enacted to, among other things, amend Sections 4020.01, 4020.02 and 6080.14 of Act No. 1 of January 31, 2011, known as Internal Revenue Code for a New Puerto Rico.

Effective July 1, 2014, Act No. 18 reduced the statutory municipal sales and usage tax rate of all municipalities from one-point five percent (1.5%) to one-point zero percent (1.0%). Simultaneously, Act No.19 created the Municipal Finance Corporation (MFC), an affiliated public company of GDB, which is authorized to issue bonds and use other financing mechanisms to directly or indirectly pay or refinance all or part of the municipal long-term debt incurred by the Municipality in previous fiscal years, that are payable from or backed by the municipal sales and usage taxes.

In order to mitigate the effects of the reductions in the municipal sales and usage tax rate referred to above, Act No. 18 established the mechanisms to protect the financial stability of the Municipality by allowing it to continue receiving the economic benefits lost as a consequence of the reduction in the statutory municipal sales and usage tax rate referred to above. For these purposes, effective July 1, 2014, Act No. 18 requires that an amount equal to zero-point five percent (0.5%) of the sales and usage taxes collected by the Commonwealth of Puerto Rico be deposited in a special fund to be known as Municipal Administration Fund (MAF) in the name and for the benefit of the Municipality.

Accordingly, since July 1, 2014, the Commonwealth of Puerto Rico has made advances from the collections arising from the zero-point five percent (0.5%) of the sales and usage taxes to the MAF of the Municipality. The advances have been made and distributed to the Municipality on a monthly basis as follows in accordance with Section 4050 of Act No. 1, as amended:

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

- a. .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- b. .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),

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c. .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.

**8. DUE FROM OTHER AGENCIES**

Represents grants and contributions due from local and federal agencies:

<u>General Fund</u>		
Puerto Rico Electrical Power Authority		\$ 11,444,452
Municipal Revenues Collection Center (CRIM)		2,768,651
		<u>14,213,103</u>
<u>HUD Fund</u>		
Department of Housing and Urban Development (Home)		622,007
Department of Housing and Urban Development (Section 8)		65,574
		<u>687,581</u>
<u>HHS Fund</u>		
ODSEC (CSBG)		572,143
Municipality of San Juan (Ryan White)		43,586
		<u>615,729</u>
<u>Other governmental funds</u>		
Office of Management and Budget - FEMA		369,208
Road and Transportation Authority		202,921
Department of Economic Development and Commerce (WIOA)		170,647
		<u>742,776</u>
Total		<u>\$ 16,259,189</u>

**9. INTERFUND TRANSACTIONS**

**a. Due from/to Other Funds:**

The due from and due to other fund balances as of June 30, 2019, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental	\$ 2,318,017
General	HUD Fund	612,175
General	HHS Fund	<u>503,511</u>
		<u>\$ 3,433,703</u>

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All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**b. Interfund Transfers:**

Interfund transfers for the year ended June 30, 2019 consisted of the following:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General	Debt Services	\$ 12,519,148
Debt Services	General	16,830,257
Capital Project	General	<u>652,000</u>
		<u>\$ 30,001,405</u>

The transfer from the debt services fund to the general fund of approximately \$12.5 million represents monies transferred for the excess of redemption funds.

Transfer of \$16.8 millions from the general fund to debt service fund to finance the principal payments of a bond obligation.

Remaining transfers are used to (1) move revenues from the fund that statute or budget revenues to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collection the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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**10. CAPITAL ASSETS**

**a. Primary Government**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<b>Balance July 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2019</b>
Capital assets, not being depreciated:				
Land	\$ 274,722,502	\$ 4,650,182	\$ -	\$ 279,372,684
Construction in progress	6,411,136	9,945,314	4,790,365	11,566,085
Art work	3,469,690	112,350		3,582,040
Total capital assets, not being depreciated	<u>284,603,328</u>	<u>14,707,846</u>	<u>4,790,365</u>	<u>294,520,809</u>
Capital assets, being depreciated:				
Buildings and building improvements	374,302,214	2,779,880		377,082,094
Furniture and fixtures	2,685,252	78,821	158,117	2,605,956
Vehicles and equipment	40,124,456	1,466,837	2,044,571	39,546,722
Infrastructure	223,256,344	3,409,297		226,665,641
Total capital assets, being depreciated	<u>640,368,266</u>	<u>7,734,835</u>	<u>2,202,688</u>	<u>645,900,413</u>
Buildings and building improvements	126,563,542	7,551,031		134,114,573
Furniture and fixtures	2,162,883	105,819	151,439	2,117,263
Vehicles and equipment	31,080,707	1,784,597	2,029,466	30,835,838
Infrastructure	143,534,117	15,175,788		158,709,905
Total accumulated depreciation	<u>303,341,249</u>	<u>24,617,235</u>	<u>2,180,905</u>	<u>325,777,579</u>
Total capital assets, being depreciated, net	<u>337,027,017</u>	<u>(16,882,400)</u>	<u>21,783</u>	<u>320,122,834</u>
Governmental activities capital assets, net	<u>\$ 621,630,345</u>	<u>\$ (2,174,554)</u>	<u>\$ 4,812,148</u>	<u>\$ 614,643,643</u>

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

Public works	\$ 15,290,127
Recreation	4,818,812
General government	3,096,894
Health and welfare	568,702
Education	432,740
Culture	282,993
Public safety	126,967
Total	<u>\$ 24,617,235</u>

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**b. Business-Type Activities**

<b>Business-type Activities</b>	<b>Balance July 1, 2018</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2019</b>
Capital assets, not being depreciated:				
Land	\$ 1,754,000	\$ -	\$ -	\$ 1,754,000
Construction in progress		44,955		\$ 44,955
Total capital assets, not being depreciated	<u>1,754,000</u>	<u>44,955</u>	<u>-</u>	<u>1,798,955</u>
Capital assets, being depreciated:				
Building	22,397,655	5,350		22,403,005
Total capital assets, being depreciated	<u>22,397,655</u>	<u>5,350</u>	<u>-</u>	<u>22,403,005</u>
Less accumulated depreciation for:				
Building	3,009,341	335,965		3,345,306
Total accumulated depreciation	<u>3,009,341</u>	<u>335,965</u>	<u>-</u>	<u>3,345,306</u>
Total capital assets, being depreciated, net	<u>19,388,314</u>	<u>(330,615)</u>	<u>-</u>	<u>19,057,699</u>
Business-type activities assets	<u>\$ 21,142,314</u>	<u>\$ (285,660)</u>	<u>\$ -</u>	<u>\$ 20,856,654</u>

**11. DUE TO OTHER AGENCIES**

Due to other agencies at June 30, 2019 are as follows:

General Fund

Puerto Rico Electrical Power Authority	\$ 11,444,452
Puerto Rico Aqueduct and Sewer Authority	579,495
Internal Revenue Services	547,655
Puerto Rico Treasury Department	165,037
Retirement System Administration	88,628
Child Support Administration	16,303
Association of Employees of the Commonwealth of PR	12,883
General Services Administration	250
Total	<u>\$ 12,854,703</u>

**12. UNEARNED REVENUES**

The unearned revenues of approximately \$28.4 million in the general fund are related to municipal license taxes collected in fiscal year 2018-2019 that will be earned in fiscal year 2019-2020.

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**13. DEFERRED INFLOWS OF RESOURCES**

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.

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.

**14. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues in the general and capital projects funds consist mainly of collections from the Commonwealth of Puerto Rico and the CRIM, payments in lieu of taxes from the Puerto Rico Electric Power Authority and federal financial assistance received from the federal government.

**15. NOTE RECEIVABLE**

On February 2012, the Municipality entered into a capital loan agreement with Bayamón Hotel Company, LLC (“BHC”). The agreement was executed in connection with the development and construction by BHC of a 156-room hotel under the Hyatt Place brand, with related amenities and a 10,500 square foot casino, in property leased from the Municipality, adjoining the Municipality’s Science Park. As a result, the Municipality has a note receivable in the amount of \$7,230,000, the Municipality Commitment, due from Bayamón Hotel Company, LLC, which represents advances to BHC, including the principal sum of \$7,200,000 and expenses of \$30,000 related to the agreement. The first draw included \$304,672 for the funding of an escrow account in the Government Development Bank for Puerto Rico (GDB). On November 2018, the Municipality and the GDB agreed to off-set the obligation so that the Municipality no longer has obligation to GDB in relation to the loan agreement. As a result, the BHC and the Municipality agrees to amend the agreemen in order to authorize the BHC to make the payments directly to the Municipality. On August, 2019, the BHC and the Municipality agreed the payment of principal and/or interests shall be paid directly to the Municipality, semiannually beginning on the fifth year after the last funding date, provided no later than the opening date. The total balance of the note receivable at June 30, 2019 is \$7,070,000.

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**16. LONG-TERM DEBTS**

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

- a. direct obligations of the Municipality (evidenced principally by bonds and notes) are backed by the full faith, credit and taxing power of the Municipality; and
- b. direct obligations are not to be issued if the amount of the principal of, and interest on, such bonds and notes (and on all such bonds and notes issued thereafter) which are payable in any fiscal year, together with any amount paid by the Municipality in the preceding fiscal year on account of bonds or notes guaranteed by the Municipality, exceed 10 percent of the total assessed value of the Municipality's property.

There is not legal limitation on the amount of debt that the Municipality may guarantee so long as the 10 percent limitation is not exceeded. At June 30, 2019, the Municipality is in compliance with the debt limitation requirements.

Bonds and notes payable and other debt outstanding at June 30, 2019 are as follows:

**a. Bonds**

\$17,850,000 series of 1994, payable in annual installments of \$240,000 to \$1,550,000 until July 1, 2019, interest ranging from 6.1% to 8.2%.	\$ 1,550,000
\$2,595,000 series of 1999, payable in annual installments of \$35,000 to \$225,000 until July 1, 2023, interest ranging from 4.8% to 6.5%.	975,000
\$1,700,000 series of 2000, payable in annual installments from \$290,000 to \$390,000 until 2024, interest ranging from 2.7% to 7.8%.	715,000
\$2,765,000 series of 2001, payable in annual installments of \$40,000 to \$240,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	1,345,000
\$11,945,000 series of 2001, payable in annual installments of \$165,000 to \$1,040,000 until July 1, 2025, interest ranging from 2.7% to 6.13%.	5,830,000

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\$12,060,000 series of 2002, payable in annual installments of \$265,000 to \$1,135,000 until July 1, 2021, interest ranging from 2.7% to 5.39%.	\$ 3,165,000
\$10,050,000 series of 2005, payable in annual installments of \$210,000 to \$685,000 until July 1, 2029, interest ranging from 3.28% to 5%.	5,930,000
\$6,935,000 series of 2005, payable in annual installments of \$145,000 to \$470,000 until July 1, 2029, interest ranging from 4.17% to 5%.	4,085,000
\$19,066,000 series of 2005, payable in annual installments of \$360,000 to \$1,386,000 until July 1, 2029, interest ranging from 3.75% to 5.31%.	11,571,000
\$4,140,000 series of 2005, payable in annual installments of \$80,000 to \$300,000 until July 1, 2029, interest ranging from 4.17% to 5.31%.	2,500,000
\$4,825,000 series of 2006, payable in annual installments of \$95,000 to \$345,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	3,100,000
\$7,270,000 series of 2006, payable in annual installments of \$120,000 to \$560,000 until July 1, 2030, interest ranging from 4.23% to 5.33%.	4,875,000
\$9,327,500 series of 2007, payable in annual installments of \$365,000 to \$700,000 until July 1, 2031, interest ranging from 2.93% to 5.62%.	6,457,500
\$10,710,000 series of 2008, payable in annual installments of \$155,000 to \$915,000 until July 1, 2032, interest ranging from 1.53% to 7.5%.	7,270,461
\$18,790,000 series of 2008, payable in annual installments of \$430,000 to \$1,715,000 until July 1, 2028, interest ranging from 1.53% to 7.5%.	12,036,608
\$8,110,000 series of 2010 payable in annual installments of \$115,000 to \$875,000 until July 1, 2026, interest ranging from 4.40% to 7.25%.	\$ 5,780,000

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\$10,540,000 series of 2012 payable in annual installments of \$180,000 to \$815,000 until July 1, 2035, interest ranging from 6.0% to 6.5%.	8,148,611
\$15,832,365 series of 2013, payable in annual installments of \$635,000 to \$1,227,365 until July 1, 2037, interest ranging from 5.3% to 7%.	12,657,365
\$8,050,825 series of 2013, payable in annual installments of \$5,000 to \$900,825 until July 1, 2033, interest ranging from 5.3% to 6%.	8,020,825
\$1,985,700 series of 2013, payable in annual installments of \$190,000 to \$320,700 until July 1, 2020, interest ranging from 5.3% to 6%.	610,700
\$20,650,000 series 2015 payable in annual installments of \$420,000 to \$2,590,000 until 2035, interest ranging from 3.52% to 6%.	18,820,000
\$8,090,000 series 2015 payable in annual installments of \$450,000 to \$2,040,000 until 2024, interest ranging from 3.48% to 6%.	5,990,000
\$7,440,000 series 2017 payable in annual installments of \$460,000 to \$1,775,000 until July 1, 2024, interest ranging from 4.40% to 6%.	6,030,000
\$15,000,000 series 2019 payable in annual installments of \$1,500,000 to \$2,300,000 until July 1, 2030, interest ranging from 8.00% to 8.25%.	<u>15,000,000</u>
Total bonds payable	<u>\$ 152,463,070</u>

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The annual debt services requirements for the bonds payable are as follows:

	<i><b>Bonds</b></i>	
	<u><b>Principal</b></u>	<u><b>Interest</b></u>
2020	\$ 12,805,000	\$ 8,865,783
2021	12,325,700	8,481,823
2022	12,890,000	7,684,855
2023	12,440,000	6,874,713
2024	13,780,000	6,026,378
2025-2029	50,089,108	18,365,163
2030-2034	31,417,286	6,421,675
2035-2039	6,715,976	632,837
	<u>\$ 152,463,070</u>	<u>\$ 63,353,227</u>

**b. Note Payable - CRIM (Law 42)**

Note payable of \$1.1 million represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in annual aggregate principal installments of \$123,417 plus interest rate of 6.25%.

The annual debt service requirements for the note payable at June 30, 2019, are as follows:

	<i><b>Note Payable - CRIM (Law 42)</b></i>	
	<u><b>Principal</b></u>	<u><b>Interest</b></u>
2020	\$ 56,755	\$ 66,662
2021	60,321	63,096
2022	64,111	59,306
2023	68,139	55,278
2024	72,420	50,997
2025-2029	436,350	180,735
2030-2034	361,692	37,000
	<u>\$ 1,119,788</u>	<u>\$ 513,074</u>

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**c. Note Payable - CRIM (Law 146)**

On April 2, 2002, the Municipality entered into a financing agreement with the CRIM in the amount of \$2,425,627, to finance delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The agreement is in the form of a no revolving line of credit bearing interest of 6.5% for the first 5 years and variable for the next 25 years at 125 points over London Interbank Offered Rate (LIBOR) and is due on December 1, 2032.

As described in Law No. 146, interest payments for the first 5 years will be financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first 5 years any collection from those delinquent accounts will be credited to the loan principal. After the 5-year period, the loan outstanding balance will be restructured for a 25 years period. Debt service requirements in future years are as follows:

	<b><i>Note Payable - CRIM (Law 146)</i></b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 97,014	\$ 31,580
2021	97,014	29,151
2022	97,014	26,721
2023	97,014	24,292
2024	97,014	21,863
2025-2029	485,069	72,877
2030-2034	291,233	14,575
	<u>\$ 1,261,372</u>	<u>\$ 221,059</u>

**d. Note Payable – FEMA**

The Municipality has entered into a Community Disaster Loan (CDL) with the federal Emergency Management Agency (FEMA) to assist in paying current operations as a result of Hurricane María. During 2018, the Municipality was authorized to draw down \$5,000,000. As of June 30, 2019, the Municipality has drawn down the full \$5,000,000. The Municipality has pledged as collateral future revenues from anticipated taxes. The CDL's, which accrue interest at rate of 2.625% are due at the end of five years but can be extended for additional five years. Interest in the amount of \$656,250 will be due on the outstanding principal balance at the end of the five years. Interest accrued for the year ended June 30, 2019 is \$92,969.

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**e. Notes Payable - Section 108**

The notes payable of \$23 million due to the U.S. Department of Housing and Urban Development, payable in annual aggregate principal installments ranging from \$1,300,000 to \$2,000,000, plus interest, which fluctuates from 1.16% to 2.88%. The note payable is due in August 2024.

	<b><i>Note Payable - Section 108</i></b>	
	<b>Principal</b>	<b>Interest</b>
2020	\$ 2,700,000	\$ 468,062
2021	1,500,000	351,302
2022	1,425,000	270,291
2023	1,425,000	190,562
2024	2,650,000	150,785
	<b>\$ 9,700,000</b>	<b>\$ 1,431,002</b>

**f. Other Long-term Liabilities**

Claims and judgments - Represents estimated losses of legal cases to be paid subsequent to June 30, 2019. The awarded amount, if any, will be paid with unrestricted funds. \$ 695,000

Retirement System - The debt corresponds to the amount due for additional uniform contribution for fiscal year 2016-2017. 1,343,861

Puerto Rico Electric Power Authority - This amount represents the invoices payable as of June 30, 2019 for the Municipality's properties that are excluded from the contribution in taxes (CELI) in accordance with the new guidelines for the energy subsidy of the Puerto Rico Electric Power Authority ("PREPA"). The Municipality is in the appeal process because the Municipality understands the invoices of these Municipality's properties should also be covered in the CELI. 1,041,832

Municipal Finance Corporation - The debt represents the municipal sales and use tax collected and retained by the Municipality for the months of March to May 2016 and not submitted to COFIM. 6,545,792

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Compensated absences - Includes accrued vacations, sick leave and other benefits with similar characteristics such as compensatory time; represents the Municipality's commitment to fund such costs from future operations. Amount is paid with unrestricted funds. 14,009,365

Total other long-term liabilities \$ 23,635,850

**g. Revenue Bond-Proprietary Fund**

On November 23, 2014, the Municipality issued a revenue bond amounting to \$6,375,000 for improvements to the property known as Río Bayamón Golf Course. The bond is payable in annual installments commencing on January 1, 2015 through July 1, 2019. The Municipality shall pay interests on the bond at a rate per annum equal to 4.85 percentage points over prime rate (1.35%).

Pursuant to the provisions of the revenues bond indentures, the Municipality has pledge and assigned its right, title and interest in all future revenues to be produced in the operation and maintenance of the property. In the event that such revenues are not sufficient to make all debt service payments of principal, interests and premium, if any, on the bond, the Municipality will assign the necessary position of its general revenues to cover the debt services payments due and payable. In addition, the property is subjected to a mortgage constituted as security for the obligation evidenced by the bond issued.

The revenue bond is subjected to several positive and negative covenants that the Municipality must comply with at all times. Municipality's management understands that all covenants have been complied with in all material respects, at June 30, 2019.

Annual debt service requirement to maturity for bond payables, is as follows:

<u>Year ending, June 30,</u>	<b>Principal</b>	<b>Interest</b>
2020	<u>\$ 5,325,000</u>	<u>\$ 128,889</u>

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Long-term liabilities activity for the year ended June 30, 2019 was as follow:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Payments</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
Bonds payable	\$ 205,317,390	\$ 15,000,000	\$ 67,854,320	\$ 152,463,070	\$ 12,805,000
Note payable - CRIM (Law 146)	1,358,386		97,014	1,261,372	97,014
Note payable - CRIM (Law 42)	1,146,081		26,293	1,119,788	56,755
Note payable - HUD (Home)	473,202		473,202	-	
Note Payable - CDL		5,000,000		5,000,000	
Note payable - HUD	13,200,000		3,500,000	9,700,000	2,700,000
Total long-term debt	<u>221,495,059</u>	<u>20,000,000</u>	<u>71,950,829</u>	<u>169,544,230</u>	<u>15,658,769</u>
Claims and judgements	675,000	20,000		695,000	
Retirement system	1,343,861			1,343,861	
Puerto Rico Electric Power Authority	1,309,939		268,107	1,041,832	
COFIM	7,547,287		1,001,495	6,545,792	
Compensated absences	13,641,467	367,898		14,009,365	625,000
Total other liabilities	<u>24,517,554</u>	<u>387,898</u>	<u>1,269,602</u>	<u>23,635,850</u>	<u>625,000</u>
Total governmental activities/long-term liabilities	<u>\$ 246,012,613</u>	<u>\$ 20,387,898</u>	<u>\$ 73,220,431</u>	<u>\$ 193,180,080</u>	<u>\$ 16,283,769</u>
<b>Business-Type Activities</b>					
Revenue bond payable	<u>\$ 5,605,000</u>	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ 5,325,000</u>	<u>\$ 5,325,000</u>

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**17. FUND BALANCES**

As of June 30, 2019, fund balances are comprised of the following:

	<u>General</u>	<u>Housing and Urban Development Programs</u>	<u>Health and Human Services Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted:							
Public works	\$ 407,320	\$ 7,870	\$ -	\$ -	\$ -	\$ 57,356	\$ 472,546
Health and welfare		2,929,295	906,164			1,355,567	5,191,026
Capital outlays					6,658,024		6,658,024
Debt service				22,705,806			22,705,806
Committed:							-
General government	1,138,832						1,138,832
Assigned:							
General government	1,093,727					461,293	1,555,020
Public safety	1,553,199					8,740	1,561,939
Public works	752,027					302,508	1,054,535
Culture	8,204						8,204
Recreation	73,478						73,478
Health and welfare	17,642						17,642
Education	16,724						16,724
Unassigned	36,183,180						36,183,180
	<u>\$ 41,244,333</u>	<u>\$ 2,937,165</u>	<u>\$ 906,164</u>	<u>\$ 22,705,806</u>	<u>\$ 6,658,024</u>	<u>\$ 2,185,464</u>	<u>\$ 76,636,956</u>

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**18. NET INVESTMENT IN CAPITAL ASSETS**

The investment in capital assets component of net position, net of related debt is comprised of the following:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Capital assets, net of accumulated depreciation	\$ 614,643,643	\$ 20,856,654
Outstanding balance on capital related debt	<u>(162,163,070)</u>	<u>(5,325,000)</u>
Total investment in capital assets, net of related debt	<u>\$ 452,480,573</u>	<u>\$ 15,531,654</u>

**19. 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), a trust created by the Commonwealth's Legislature. 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.

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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.

**Benefits Provided**

Eligibility for retirement: Act 3 establishes 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.

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.

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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 Act 1 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

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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 costs are billed by ERS and paid by the Municipality through the “Paygo” system.

**Retirement System Reform**

Act No. 106 of August 23, 2017 (“Act 106”) was enacted to reform the Commonwealth retirement systems and, among other dispositions, provide the necessary legal and operational structure of the determination and payment of accrued pension benefits as of June 30, 2017, the creation and transition to a new defined contribution plan and the reform of ERS’s governance and administration, effective on July 1, 2017. Those dispositions are summarized as follows:

**Determination of Accrued Pension Benefits as of June 30, 2017 and Payments**

Effective July 1, 2017 participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. The ERS created and will maintain, for each participant or actual beneficiary, an individual record as of June 30, 2017 which includes the accrued pension benefits, employment history and accumulated contributions made. All benefits including retirement, disability, death, and other pensioner additional benefits were determined in accordance to the specific benefit structures under Act 447, Act 1, Act 305 and Act 3 and will be paid based on the information provided in the individual record. The accrued pension benefits will be funded through:

- The net proceeds of the sale of ERS’s assets,
- A pay-as-you-go (“PayGo”) charge to the participant employers determined by ERS and billed by the PRDT,
- Commonwealth’s legislative expenditure appropriations,
- Donations by any public or private entity,
- 25% of first or periodic payments on public-private partnership contracts,
- Other funds determined by the Commonwealth’s Legislature.

On June 27, 2017 the PRDT issued the Circular Letter No. 1300-46-17 to communicate to the Commonwealth, the Municipalities and other participants of the ERS the conversion procedures to a new PayGo model, effective on July 1, 2017. Under the PayGo funding, the participant employers directly pay the pension benefits (including other special laws and additional pensioner benefits) as they are due rather than attempt to build up assets to pre-fund future benefits. This funding method allows the retirement systems to continue to pay

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benefits even after the plans' assets have been exhausted. In addition, as a result of the implementation of PayGo funding, employers' contributions related to additional uniform contributions were eliminated. Payments are made by the employers (the Municipality) through a government treasury single account (TSA) maintained on a separate trust under the custody of PRDT. TSA funds are deposited and maintained in a private commercial bank. It is expected that, as the ERS's assets become depleted, the PayGo charge will increase. On July 20, 2017 ERS sold investments for approximately \$297 million.

Act 106 includes penalties and specific procedures for collection of unpaid PayGo charges. Each beneficiary, participant or pensioned will have personal collection rights against every incumbent, head of agency, director of budget or finance or any officer with responsibility at government, public enterprise or municipality to claim unpaid contributions starting on the effective date of the Act and demand that they be paid as required. For municipalities, it authorized a legal lien of property tax to be collected by the CRIM through the monthly advances. During the fiscal year 2018-2019, the Municipality was billed and recorded as PayGo expenditures the amount of \$5,081,226, of which \$88,628 was recorded as due to Commonwealth Government as of June 30, 2019. See related **Note 11**.

**Creation and Transition to a New Defined Contribution Plan**

General - Effective July 1, 2017, a new defined contribution plan ("DC Plan") is created and maintained in a separate trust. It covers all active participants of the ERS as of that date and participants enrolled in the public service after that date. The Retirement Board (as discussed later) is responsible for oversight of the DC Plan; the PRDT currently serves as the trustee and custodian of the DC Plan's assets, which are deposited in a private bank account. The transition to the new DC Plan is currently in process. In accordance with Act 106 requirements, the Retirement Board is evaluating proposals to appoint a plan administrator which will perform recordkeeping and management functions for the DC Plan, including the development and adoption of a plan document, effective July 1, 2019. The transition includes the creation of a separate trust and the transfer of participant accounts.

Participant accounts and contributions - Funds are maintained in individual accounts for each participant which are credited with participant's pre-tax contributions and investment earnings. Participants are required to contribute at least 8.5% of gross salary. The Plan provides for voluntary additional pre-tax contributions as permitted by the Puerto Rico Internal Revenue Code of 2011 ("2011 PR Code"). After July 1, 2019, participants may direct the investment of their contributions into various investment options offered by the DC Plan.

Payment of benefits - Upon termination of service a participant or the participant beneficiaries may elect to receive an amount equal to the value of the participant's interest in his or her account in a lump-sum amount, maintain his or her account in the DC Plan, or roll-over their account to a qualified plan under the 2011 PR Code. Upon participant's death the account balance will be distributed to its designated beneficiaries. Distributions are

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subject to income tax in accordance with the provisions of the 2011 PR Code. For participants of the DC Plan with accrued pension benefits as of June 30, 2017, benefits will include amounts of participant's interest in his or her account plus accrued pension benefits funded through the PayGo system.

**Reform of ERS's governance and administration**

Act 106 creates a Retirement Board composed of thirteen (13) members (government officials, representatives of teachers, judicial system, public corporations and mayors) which replaces the Board of Trustees and perform overall governance of all retirement systems, including ERS, the Teachers and Judiciary Retirement Systems. ERS's employees that are not retained under the new administrative structure will be transferred to public agencies in conformity to Act No. 8 of 2017.

**Pension liabilities, pension expense, and deferred outflows/inflows of resources related to pensions; other required disclosures under GASB Statement No. 73**

As discussed above, pursuant to Act 106, participants ceased to accrue new pension benefits and are no longer able to make direct credit payments or to make additional contributions to the ERS. In addition, benefit payments are made through a PayGo funding system, a TSA account under the custody of PRDT and maintained in a separate trust fund. Plans operated under various benefit structures prior to July 1, 2017 are administered by the new Retirement Board through a trust fund that do not meet the requirements of **GASB Statement No. 68** as of July 1, 2017. Instead, the employers may be subject to the requirements of **GASB Statement No. 73**, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*".

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 total pension liability as of June 30, 2019. As a result, management has not been able to implement 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 do not comply with the criteria set forth in the GASB Statement No. 73. 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.

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**20. OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

The Municipality is a participating employer in the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities Medical Insurance Plan Contribution ("ERS-MIPC"). ERS MIPC is an unfunded, cost sharing, multi-employer defined benefit plan sponsored by the Commonwealth. Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, are covered by the OPEB. Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

**Benefits Provided**

ERS MIPC covers a payment of up to \$100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3).

**Contributions**

The contribution requirement of ERS MIPC is established by Act No. 95 approved on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The Municipality's contribution is financed through the monthly Paygo charge. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. As a result, these OPEB are 100% unfunded. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

**OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB; other GASB Statement 75 required disclosures**

The ERS have not issued its audited financial statements as of and for the fiscal year ended June 30, 2018 nor has it provided the Municipality with the audited schedules of employment allocations and OPEB amounts by employer as of June 30, 2018 (Municipality's measurement date), necessary to comply with the requirements of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions",

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as of June 30, 2019. As a result, amounts to be reported as deferred outflows \inflows of resources related to OPEB, the net OPEB liability, applicable disclosures and required supplementary information have been omitted.

**21. HEALTHCARE COSTS**

During the year ended June 30, 2000, the Governor of the Commonwealth imposed to the municipalities of Puerto Rico an annual contribution to subsidy the costs of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contribution made by the Municipality amounted to approximately \$6.2 million for the fiscal year ended June 30, 2019.

**22. CONTINGENCIES**

**a. Federal and State Grants**

The Municipality receives Federal Grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, management believes that any required reimbursements would not be material.

**b. Litigations**

The Municipality is a defendant and/or co-defendant in various lawsuits which claims for actual damages. Some of these lawsuits are covered by insurance. The Municipality's management and outside counsels believe that is probable that any potential liability that might exist, if any, in excess of the insurance, will not affect significantly the financial position of the Municipality.

**23. COMMITMENTS**

**a. Operating Leases**

Leasing Arrangement with the Municipality as Lessor:

- 1) The Municipality leases spaces in its Market Place under operating lease agreements with terms ranging from one to five years.
- 2) Total income from leases during the year ended June 30, 2019 was approximately \$1 million.
- 3) The Municipality retains title to its leased property.

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- 4) The lessee pays taxes, licenses, insurance, and maintenance costs of the leased assets.

Leasing arrangements with the Municipality as lessee:

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

**b. Construction**

The Municipality of Bayamón had several planned construction projects as of June 30, 2019. These projects are evidenced by contractual commitments with contractors. The construction projects are commitments of the Capital Projects funds that amounted to approximately \$0.3 million.

**24. TAX ABATEMENTS**

A tax abatement is a reduction in tax revenues or an exemption from tax expense that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action that after the agreement has been entered into, it contributes to economic development or otherwise benefits the governments or the citizens of those governments. The Municipality's tax revenues may be reduced not only as a result of tax abatement agreements it enters into but also as a result of tax abatement agreements entered into by other governments, including the Commonwealth of Puerto Rico and its instrumentalities. Agreements outstanding during fiscal year 2018-2019 are as follows:

**a. Commonwealth of Puerto Rico Agreements – Act 168 of 1968, as amended –  
“Act to Grant Tax Exemptions to Hospitals”**

*Purpose:* To grant tax incentives to hospitals and other applicable health providers' facilities in order to promote their development by providing the ability to raise funds to invest on their own operational needs.

*Tax Benefits/Exemptions:*

- Tax credit up to fifteen percent (15%) of the total eligible payroll expense to be used to reduce up to fifty percent (50%) of income taxes over eligible health service revenues.

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- Exemption of a hundred percent (100%) from the payment of real and personal property over assets used to provide health services.
- Exemption of a hundred percent (100%) from the payment of state excise taxes over the acquisition of any equipment, machinery and effects used to provide medical diagnostics and treatments.
- No hospital or eligible health service facility shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

**b. Commonwealth of Puerto Rico Agreements – Act 225 of 1995, as amended – “Agricultural Tax Incentives Act”**

*Purpose:* To establish public policy in the agricultural sector and other related economic sectors. Also, to establish the requirements to qualify as “bona fide farmers” and to provide them with all kinds of exemptions for the payment of income taxes, property taxes (real and personal), municipal licenses, construction excise taxes and any other state or municipal taxes or rights.

*Tax Benefits/Exemptions:*

- Exemption of ninety percent (90%) of income taxes for revenues earned from agricultural business.
- Tax credit up to fifty percent (50%) of the total eligible investment.
- Exemption of a hundred percent (100%) for the payment of real and personal property over assets used intensively for agricultural businesses and purposes.
- Exemption of a hundred percent (100%) for the payment of state excise taxes over the acquisition of any equipment, machinery and effects used in the agricultural business.
- No “bona fide farmer” shall be subject to municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

**c. Commonwealth of Puerto Rico Agreements – 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; the exportation of products manufactured in Puerto Rico; stimulates the development of strategic industries; promotes the creation of small and medium businesses; the establishment of regional and central corporate offices and distribution centers in Puerto Rico; the creation of jobs and the development of human resources; and to stimulate the development and distribution of technology in Puerto Rico.

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*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 the year of 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.
- 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.

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

**d. Commonwealth of Puerto Rico Agreements – Act 255 of 2002 – “Savings and Loans Associations Act, as amended”**

*Purpose:* To permit the free offering of products and services by savings and loans associations under terms and conditions similar to the other participants of the financial markets; to promote the offering of financial resources and services to small and medium-sized businesses through savings and loans structures; and to facilitate the economic integration of the savings and loans associations with other economic and financial sectors.

**Tax Benefits/Exemptions:**

- The savings and loans associations, their subsidiaries or affiliates, as well as the revenue of all of their activities/operations, their assets, capital, reserves and surplus of income, will be exempt from the payment of income taxes, property taxes, state excise taxes or of any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions, except for the sales and use tax established in the

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Sections 4020.01 and 4020.02 of the Puerto Rico Internal Revenue Code; the tax authorized by Section 6080.14; the taxes established in Sections 4210.01, 4210.02 and 4210.03; and the excise taxes under Chapter 2 of Subtitle C of Act 1 of 2011.

- All shares and securities issued by the associations, their subsidiaries and affiliates, as well as the dividends and interest paid on them, will be exempt of any type of tax assessment, including income, property, excise, license or any other tax imposed or to be imposed by the Commonwealth or any of its political subdivisions.
- Exemption from the payment of state and municipal license and excise taxes, rights, charges, permits and registration fees.

**e. Commonwealth of Puerto Rico Agreements – 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.
- Ninety-percent (90%) exemption on municipal and Commonwealth taxes on real and personal property.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**f. Commonwealth of Puerto Rico Agreements – Act 83 of 2010 – “Green Energy Incentive Act”**

*Purpose:* To further renewable energy generation, in accordance with short, medium and long-term mandatory goals; to empower the Energy Affairs Administration to incentivize compliance with compulsory goals and development of sustainable renewable energy and alternative renewable energy; to establish measures aimed at fostering the development of sustainable energy systems that further energy use savings and efficiency through the establishment of a fund denominated “Green Energy Fund”; to organize and standardize the existing incentive and create a new incentive that stimulates the proliferation of these energy sources; and to amend certain existing laws.

*Tax Benefits/Exemptions:*

- Fixed income tax rate of four percent (4%) on revenues derived from eligible businesses and companies.
- Exemption of ninety percent (90%) for the payment of real and personal property over assets used in eligible businesses or companies.
- Exemption of sixty percent (60%) on municipal license taxes, excise taxes and other municipal income taxes levied by a municipal ordinance.

**g. Commonwealth of Puerto Rico Agreements – Act 159 of June 24, 2004 – Amendment to Article 5.01 of Act 83 of 1991: “Municipal Property Tax Act of 1991”**

*Purpose:* To provide tax benefits that stimulate the industrial activity and the exportation of goods, through a mechanism to grant a personal property tax exemption exclusively to the inventory of goods to be used as raw materials and to the total inventory of products and equipment of those businesses whose operations are in Foreign Trade Zones or Subzones.

*Tax Benefits/Exemptions:*

- Total exemption of personal property tax, including inventory and equipment, of those businesses that maintain operations within Foreign Trade Zones or Subzones of Puerto Rico duly accredited per the “Foreign Trade Zone Act of 1934, as amended” (19U.S.C. 81 C (a)).
- Sixty (60) percent tax exemption on the assessed value of all the privately-owned real property located within Foreign Trade Zones or Subzones of Puerto Rico duly

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF BAYAMÓN**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

accredited per the “Foreign Trade Zone Act of 1934, as amended” (19U.S.C. 81 C (a)).

**h. Commonwealth of Puerto Rico Agreements – Act 7 of March 4, 1955, as amended – Tax Exemption of Historic Sites**

*Purpose:* To provide an exemption from the payment of property tax to real properties restored, improved and/or reconstructed as to maintain the characteristics of Hispanic colonial era, located in the historical sites of the Municipality of San Juan, or any other historic site established in Puerto Rico by the Puerto Rican Culture Institute (“the Institute”).

*Tax Benefits/Exemptions:*

- The structure to be improved, constructed, restored or reconstructed and the land in which it is located will have total real property tax exemption for a period of five (5) or ten (10) years, depending on the recommendation made by the Institute.
- In those cases where a façade reconstruction is made to a building with no historical or architectural value to temper it with that of the historical site scene in which it is located, an exemption period of five (5) years can be granted. This period cannot be renewed.
- Those cases that involve a total reconstruction which incorporates more than a fifty (50) percent of new construction elements to buildings with no historical or architectural value to temper them to their historic site scenery; or that involve the construction of a new structure in an empty land lot or where there are only building remains, a tax exemption of ten (10) years can be granted, based on the recommendations of the Institute.
- Once the ten-year exemption period expires, the Secretary of the Puerto Rico Treasury Department can grant an additional exemption period of ten (10) years as long as the Institute certifies that:
  - The structure has not suffered significant alterations to its original design.
  - Deserves to be preserved as part of our cultural heritage due to its historical or architectural value.
  - It will remain, once the construction is completed per the Institute’s requirements, in equal or better state than the one it was once the first restauration had been made.

**i. Not-for-profit Organizations**

Not-for-profit organizations are entities, incorporated or not, dedicated to the offering of services that, under the Puerto Rico Internal Revenue Code, qualify for an exemption

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

from the payment of state income taxes. For example, entities created for charitable, literary, scientific and educational purposes; professional organizations and certain clubs and fraternity associations can request this exemption subject to their compliance with the requirements stated in the Puerto Rico Internal Revenue Code. Generally, these organizations are 100% exempt from the payment of property taxes, municipal license taxes and municipal construction excise taxes. Title V, Article 5.01, items (e) through (g) of Act 83 of 1991 – “Municipal Property Tax Act, as amended,” states the types of organizations that are exempt from the payment of personal and real property taxes. For municipal license taxes, Section 9 – “Exemptions” of Act 113 of 1974 – “Municipal License Taxes Act, as amended,” establishes the organizations that are exempt from the payment of municipal license taxes. Finally, municipal ordinances state the percentage of construction excise taxes, if any, that these types of organizations must pay.

<u>Act' Name or Description</u>	<u>Tax Category</u>	<u>Percent Abated</u>	<u>Amount Abated 2018-2019</u>
Act 135 of 1998, as amended – “Tax Incentives Act”	Real property tax	90%	\$ 1,149,426
	Personal property tax	90%	623,419
			<u>1,772,845</u>
Act 73 of 2008, as amended – “Economic Incentives Act for the Development of PR”	Real property tax	90%	3,610,743
	Personal property tax	90%	260,707
			<u>3,871,450</u>
Not-for Profit Organizations	Real property tax	90%	567,990
	Personal property tax	90%	38,450
			<u>606,440</u>
Municipal Ordenance	Personal property tax	60%	<u>2,586,299</u>
Act 255 of 2002 – “Savings and Loans Associations Act, as amended”	Real property tax	90%	303,857
	Personal property tax	90%	38,450
			<u>342,307</u>
Act 225 of 1995, as amended – “Agricultural Tax Incentive Act”	Personal property tax	90%	<u>329,181</u>
Act 168 of 1968, as amended – “Act to Grant Tax Exemptions to Hospitals”	Real property tax	90%	1,440,886
	Personal property tax	90%	389,462
			<u>1,830,348</u>
U.S. Custom and Border Protection Foreign Trade Zone Tax Incentives	Personal property tax	90%	<u>288,784</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**25. SUBSEQUENT EVENTS**

The Municipality evaluated subsequent events through March 20, 2020, the date on which the basic financial statements were available to be issued. There are no material subsequent events that would require adjustments to or disclosures in the accompanying basic financial statements as of and for the year ended June 30, 2019.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget-</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note 1)</u>	<u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 41,676,200	\$ 41,676,200	\$ 41,676,200	\$ -
Municipal license taxes	34,194,309	34,194,309	31,930,302	(2,264,007)
Sales and use taxes	23,360,442	23,360,442	25,874,152	2,513,710
Licenses and permits	2,542,767	2,542,767	3,355,002	812,235
Charges for services and rent	1,825,000	1,825,000	1,645,726	(179,274)
Intergovernmental revenues:				
State contributions	11,444,452	11,444,452	11,444,452	-
Interest, fines, and penalties	400,000	400,000	298,926	(101,074)
Other revenues	1,200,000	1,200,000	3,220,240	2,020,240
Total of revenues	<u>116,643,170</u>	<u>116,643,170</u>	<u>119,445,000</u>	<u>2,801,830</u>
<b>EXPENDITURES</b>				
Current:				
General government	70,021,203	86,688,300	83,344,211	3,344,089
Public safety	10,544,956	8,526,813	8,327,968	198,845
Public works	27,124,425	29,163,543	27,582,073	1,581,470
Culture	381,768	419,185	370,034	49,151
Recreation	3,293,616	2,551,677	2,271,675	280,002
Health and welfare	4,171,234	4,088,312	3,388,728	699,584
Education	1,105,968	1,164,284	1,029,761	134,523
Total of expenditures	<u>116,643,170</u>	<u>132,602,114</u>	<u>126,314,450</u>	<u>6,287,664</u>
<b>OTHER FINANCING SOURCES</b>				
Reprogramming funds	-	15,958,944	15,958,944	-
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,089,494</u>	<u>\$ 9,089,494</u>
<b>Explanation of Differences:</b>				
<b>Sources/inflows of resources:</b>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 119,445,000
Differences - budget to GAAP:				
Actual revenues considered revenues for financial reporting purposes but not inflow s for budget purposes (net change in receivables)				(551,307)
Non-budgeted funds				<u>9,610,188</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 128,503,881</u>
<b>Uses/outflows of resources:</b>				
Actual amounts (budgetary basis) "total changes to appropriations" from the budgetary comparison schedule				\$ 126,314,450
Differences - budget to GAAP:				
Prior year encumbrances recorded as current year expenditures for GAAP basis				3,402,001
Non-budgets funds				995,985
Net change in accounts payable				(3,225,540)
Current year encumbrances recorded as expenditures for budgetary purposes				<u>(3,515,001)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances				<u>\$ 123,971,895</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**a. Budgetary Control**

The Municipality prepares its annual budget for all of its operations and activities. Such legally adopted budget is based on expected expenditures by the program and estimated resources by source. The annual budgets are developed using elements of performance-based program budgeting and zero-based budgeting and include estimates of revenues and other resources for the ensuing fiscal year under laws and regulations existing at the time the budgets are prepared.

The Mayor must submit, for the fiscal year commencing on the next July 1, an annual budgetary resolution project (the Project) to the Commissioner of Municipal Affairs of the Commonwealth (the Commissioner) and the Municipal Legislature no later than May 10 and May 15, respectively. The Commissioner preliminarily verifies that the Project complies with all the applicable laws and regulations and may provide comments and suggestions to the Mayor on or before June 13.

The Municipal Legislature has ten (10) business days, but not later than June 13, to discuss and approve the Project with modifications. The Municipal Legislature may amend the budgets submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. After the Municipal Legislature modifies and preliminarily approves the Project, the modified Project is sent back to the Mayor for his approval or rejection within 6 days. The Mayor may decrease or eliminate any line item but may not increase or insert any new line item in the budgets. The Mayor may also veto the budgets in their entirety and return it to the Municipal Legislature with his objections. If the Mayor rejects the Project, the Municipal Legislature will have up to 8 days to adopt or reject the recommendations or objections of the Mayor. The approved Project is sent again to the Mayor, which then would have 3 days to sign and approve it. If the budgets are not adopted prior to the end of the deadlines refined to above, the annual budgets for the preceding fiscal year, as approved by the Legislature and the Mayor, are automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve new budgets. This permits the Municipality to continue doing payments for its operations and other purposes until the new budgets are approved.

The annual budget may be updated for any estimate revisions as well as fiscal year-end encumbrances and may include any additional information requested by the Municipal Legislature. The Mayor may request subsequent amendments to the approved budgets, which are subject to the approval of the Municipal Legislature. The Municipality's Department of Finance have the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTE TO BUDGETARY COMPARISON SCHEDULE-GENERAL FUND  
(CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

a program within a fund). The Mayor may transfer unencumbered appropriations within programs and among funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is at the functions/program level (general government, public safety, urban affairs, culture and recreation, health and welfare, urban development, economic development, education, and capital outlays) within the general fund. Under the laws and regulations of the Commonwealth, 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.

**b. Budgetary Accounting**

The Municipality's annual budget is prepared using the budgetary (statutory) basis of accounting, which is not in accordance with GAAP. According to the budgetary basis of accounting, revenue is generally recorded when cash is received, except in the case of municipal license taxes collected prior to June 30 but pertaining to the next fiscal year are recorded as revenue in the following budget year. Borrowings may be used to finance budgetary excess of expenditures over revenues.

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying supplemental budgetary comparison schedule - general fund provides information about the general fund's original budget, its amendments, and the actual results of operations of the general fund under the budgetary basis of accounting for the ensuing fiscal year. At June 30, 2019, the Municipality has outstanding encumbrances in the general fund amounting to \$3,515,001.

**SUPPLEMENTARY INFORMATION REQUIRED BY THE U. S.  
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
FINANCIAL DATA SCHEDULE - RQ-011  
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM  
JUNE 30, 2019**

**Balance Sheet**

<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
<b>Assets</b>		
111	Cash - unrestricted	\$ 329,006
113	Cash - other restricted	297,515
<b>100</b>	Total cash	<u>626,521</u>
121	Account receivable	31,284
122	Account receivable - others	22,276
124	Account receivable - other government;	12,014
<b>120</b>	Total account receivable, net	<u>65,574</u>
131	Investment - unrestricted	1,265,022
132	Investment - restricted	-
<b>150</b>	Total current assets	<u>\$ 1,957,117</u>
<b>Liabilities and equity</b>		
312	Account payable	372,544
321	Accrued wage	34,128
331	Account payable - others	8,914
<b>310</b>	Total current liabilities	<u>415,586</u>
353	Non-current liabilities other	29,125
<b>350</b>	Total non-current liabilities	<u>29,125</u>
<b>300</b>	Total liabilities	<u>444,711</u>
<b>Equity</b>		
509.3	Restricted fund balance	297,515
512.3	Unassigned fund balance	1,214,891
<b>513</b>	Total equity - net position	<u>1,512,406</u>
<b>600</b>	Total liabilities and equity	<u>\$ 1,957,117</u>
	See notes to Financial Data Schedule.	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
FINANCIAL DATA SCHEDULE - RQ-011  
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2019**

**Income Statement**

<u>Line Item Number</u>	<u>Description</u>	<u>Amount</u>
<b>Revenues</b>		
70600	HUD PHA operating grants	\$ 15,699,245
71100	Investment income - unrestricted	11,100
71400	Fraud recovery	140,142
71500	Other revenues	167,222
<b>70000</b>	<b>Total revenues</b>	<u>16,017,709</u>
<b>Expenses</b>		
	<i>Administrative:</i>	
91100	Administrative salaries	842,184
91500	Employee benefit contributions	201,421
<b>91000</b>	<i>Total operating - administrative</i>	<u>1,043,605</u>
96130	Workmen's compensation	21,365
<b>96100</b>	<b>Total insurance premium</b>	<u>21,365</u>
96200	Other general expenses	547,091
96800	Severance expense	1,061
<b>96000</b>	<b>Total other general expense</b>	<u>548,152</u>
<b>96900</b>	<b>Total operating expense</b>	<u>1,613,122</u>
<b>97000</b>	<b>Excess of operating revenues over expenses</b>	<u>14,404,587</u>
97300	Housing assistance payments	14,095,192
97350	HAP portability-in	154,468
<b>90000</b>	<b>Total expenses</b>	<u>15,862,782</u>
<b>10000</b>	<i>Excess (deficiency) of total revenues over (under) total expenses</i>	<u>\$ 154,927</u>

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
FINANCIAL DATA SCHEDULE - RQ-011  
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2019**

**Memo Account Information**

11170	Administrative fee equity	<u>\$ 1,214,891</u>
11180	Housing assistance payments equity	<u>\$ 297,515</u>
11190	Unit months available	<u>26,556</u>
11210	Number of unit months leased	<u>25,786</u>

See notes to Financial Data Schedule.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO SUPPLEMENTARY INFORMATION  
FINANCIAL DATA SCHEDULE  
SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**1. BASIS OF PRESENTATION**

The accompanying Financial Data Schedule (“FDS”) is a trial balance of the financial statements of the Section 8 Housing Choice Voucher Program administered by the Municipality of Bayamón. The FDS was created in order to standardize the financial information reported (“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. Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to, and does not present, the financial position and changes in the net position of the Municipality.

**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 and is prepared using the modified accrual basis of accounting.

## **SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed-Through to Subrecipient	Federal Disbursements/ Expenditures
<b>U.S. Department of Housing and Urban Development (HUD)</b>				
Community Development Block Grant Entitlement Grants	14.218		\$ -	\$ 2,294,337
Neighborhood Stabilization Program	14.256			38,003
Emergency Solutions Grant Program	14.231			179,433
Home Investment Partnership Program	14.239			946,344
Urban Development Block Grant	14.221			803
Section 8 - Moderate Rehabilitation Phase 5	14.249			221,035
Section 8 - Housing Choice Vouchers	14.871			15,862,782
			<u>-</u>	<u>19,542,737</u>
Subtotal U.S. Department of HUD				
<b>U.S. Department of Health and Human Services (HHS)</b>				
Head Start Program	93.600			14,527,699
Pass-through the Office of the Procurator of the Elderly: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045			254,208
Pass-through the Municipality of San Juan: HIV Emergency Relief Projects Grants	93.914			978,555
Grants to Provide Outpatient Early Intervention Services with	93.918			694,661
Pass-through Puerto Rico Family Department Community Service Block Grant	93.569			1,357,012
Pass-through Administration of Families and Children: Child Care and Development Block Grant	93.575			700,167
			<u>-</u>	<u>18,512,302</u>
Subtotal U.S. Department of HHS				
<b>U.S. Department of Labor</b>				
Pass-through the Department of Economic Development and Commerce WIOA - Adult	17.258			1,036,128
WIOA - Youth	17.259			1,008,536
WIOA - Dislocated	17.278			806,525
			<u>-</u>	<u>2,851,189</u>
Subtotal U.S. Department of Labor				
<b>U.S. Department of Transportation</b>				
Pass-through the Department of Transportation and Public Works: Highway Planning and Construction (Federal-Aid Highway Program)	20.205			1,813,014
Federal Transit — Formula Grants (Urbanized Area Formula Program)	20.207			54,793
			<u>-</u>	<u>1,867,807</u>
Subtotal U.S. Department of Transportation				
<b>U.S. Department of Homeland Security</b>				
Pass-through the Central Office of Recovery and Reconstruction of PR - Governors Authorized Representative: Community Disaster Loans	97.030			5,000,000
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036			7,323,536
			<u>-</u>	<u>12,323,536</u>
Subtotal U.S. Department of Homeland Security				
<b>U.S. Department of Agriculture</b>				
Pass-through Education Department: Child and Adult Care Food Program	10.558			2,029,666
			<u>-</u>	<u>2,029,666</u>
Subtotal U.S. Department of Agriculture				
<b>TOTAL</b>			<u>\$ -</u>	<u>\$ 57,127,237</u>

See the notes to the Schedule of Expenditures of Federal Awards.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. Because the schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position and changes in net position of the Municipality.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures related to Disaster Grants – Public Assistance (CFDA 97-030) are recognized when incurred and approved by the granting agency.

**3. INDIRECT COST RATE**

The Municipality did not elect to use the ten (10) percent of the minimum indirect cost rate allowed under the Uniform Guidance.

**4. RECONCILIATION OF EXPENDITURES PRESENTED IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE EXPENDITURES PRESENTED IN THE BASIC FINANCIAL STATEMENT**

The expenditures of the schedule are included in the Municipality’s basic financial statements. The reconciliation of expenditures in the basic financial statements to the Schedule of Expenditures of Federal Awards is as follows:

	<u><b>Expenditures</b></u>
Total federal expenditures per schedule	<u>\$ 57,127,237</u>
Federal expenditures per basic financial statements included within:	
General Fund	\$ 5,000,000
Housing and Urban Development Programs	19,542,737
Health and Human Services Programs	18,512,302
Federal expenditures included in other governmental funds	<u>14,072,198</u>
Total	<u>\$ 57,127,237</u>

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**5. OUTSTANDING LOANS OF FEDERAL FUNDS**

The following is a summary of outstanding loans at cost by CFDA No. as of June 30, 2019. Federal funded loans provided under these programs are included as expenditure on the schedule of expenditure of Federal Awards. Per Uniform Guidance, loans proceed that were received and expended in prior years are not considered federal awards expended (and thus not shown on the schedule of expenditures of federal awards) as those loans do not include continuing compliance requirements other than repayment of the loans. The Municipality is required to identify in the notes to the schedule of expenditures awards the balances outstanding at the end of the period.

	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant - Section 108 Loan Guarantees	14.248	\$ 9,700,000
Community Disaster Loan	97.036	<u>5,000,000</u>
		<u>\$ 14,700,000</u>

# **INTERNAL CONTROLS AND COMPLIANCE**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Municipality of Bayamón, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon March 20, 2020. Our report included a qualified opinion because the Municipality has not implemented the requirements of Statement No. 73 of the Governmental Accounting Standard Board, 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 and Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, because the information required for the implementation is not readily available.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

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

### Compliance and Other Matters

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

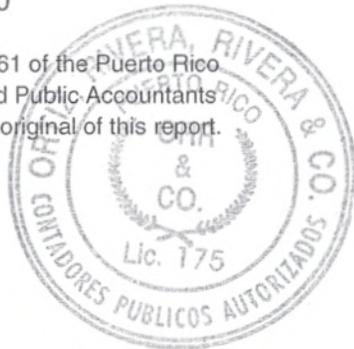
### Purpose of this Report

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

San Juan, Puerto Rico  
March 20, 2020

*Ortiz, Rivera, Rivera & Co.*

The stamp E398161 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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

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

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

We have audited Municipality of Bayamón's compliance with the types of compliance requirements described in the *OMB* Compliance Supplement that could have a direct and material effect on each of Municipality's major federal programs for the year ended June 30, 2019. Municipality's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Municipality'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 the Federal Awards (Uniform Guidance)*. Those standards and 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 Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Municipality'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 each of its major federal programs for the year ended June 30, 2019.

## 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 Municipality's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

San Juan, Puerto Rico  
March 20, 2020

The stamp E398162 of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.



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Lic. ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

## **FINDINGS AND QUESTIONED COSTS**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**1. SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditors' report issued:

Opinion Unit	Type of Opinion
Government – Wide	Qualified
Governmental Funds	Unmodified
Business-type Activities	Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	_____ Yes	_____ X No	
Significant deficiency (ies) identified?	_____ Yes	_____ X	None Reported

Noncompliance material to financial statements noted?	_____ Yes	_____ X No	
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Federal Awards

Internal control over major programs:

Material weakness (es) identified?	_____ Yes	_____ X No	
Significant deficiency (ies) identified?	_____ Yes	_____ X	None Reported

Type of auditors' report issued on compliance for major programs:	Unmodified opinion
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Any audit findings disclosed that are required to be reported in accordance with the 2 CFR 200.516(a)?	_____ Yes	_____ X No	
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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
14.871	Section 8-Housing Choice Vouchers
17.258	WIOA Cluster:
17.259	WIOA Adult
17.278	WIOA Youth
93.569	WIOA Dislocated
97.030	Community Service Block Grant
10.558	Community Disaster Loan
	Child and Adult Care Food Program

Dollar threshold used to distinguish between type A and type B programs: \$1,713,817.

Audited qualified as low-risk auditee?  Yes  No

**2. FINANCIAL STATEMENTS FINDING**

**2019-001 – Accounting Records – Recognition and Reporting of Net Pension Liability and Postemployment Benefit Other Than Pensions - Material Weakness**

Condition

The Municipality has not implemented the requirements of Statement No. 73 Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68 and Statement N.75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The amount by which this departure would affect the deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Municipality's governmental activities has not been determined.

Criteria

GASB Statement No. 73 state the accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to employees of the state and local governmental employers and are not within the scope of Statement 68. This statement requires that the Municipality report in its financial statements the net pension liability and related expenses.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

GASB Statement No. 75 state the accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses /expenditures.

Cause

The government did not engage an actuarial firm to assist in determining the total pension liability and related expenses

Effect

The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the government activities, and changes in financial position of the Municipality.

Recommendation

We recommend the Municipality that they should engage an actuarial firm to determine the total pension liability and related expense.

Management Response and Corrective Action

The Municipality it will be trying to obtain a actuarial firm to comply with this requirements.

**3. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF BAYAMÓN  
SCHEDULE OF STATUS OF PRIOR YEAR  
AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

During the current examination, follow-up was given to the findings informed to the Municipality in prior years. It was noted that corrective action has been taken and are included in the accompanying Schedule of Prior Year Findings and Questioned Costs.