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

MUNICIPIO DE ARECIBO
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF ARECIBO

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2015

(WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133)

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Pages

PART I – Financial:

PART I

FINANCIAL

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CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Arecibo of the
Commonwealth of Puerto Rico
Arecibo, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. We were engaged to audit the financial statements of the business-type activities and major enterprise fund – Mi Arecibo, Inc. These financial statements collectively comprise the **Municipality**'s basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Because of the matters discussed in the *"Basis for Disclaimer of Opinion on the Business-Type Activities and on Major Enterprise Fund – Mi Arecibo, Inc."* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the business-type activities and on major enterprise fund – Mi Arecibo, Inc.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the **Municipality**'s preparation and fair presentation of the 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the *"Basis for Disclaimer of Opinion on the Business-Type Activities and on Major Enterprise Fund – Mi Arecibo, Inc."* paragraph, we believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Disclaimer
Governmental Fund – General Fund	Unmodified
Governmental Fund – Head Start Program Fund	Unmodified
Governmental Fund – Debt Service Fund	Unmodified
Governmental Fund – Capital Activities Fund	Unmodified
Enterprise Fund – Mi Arecibo, Inc.	Disclaimer
Aggregate Remaining Fund Information	Unmodified

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

The deferred outflows/inflows of resources, and net pension liability in governmental activities of the government-wide Statement of Net Position, and the pension expense for the current period change in that liability in governmental activities of the government-wide Statement of Activities, which represents the 100 percent, 100 percent, 51.3 percent, and 11.4 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2015, and expense for the fiscal year ended. These amounts were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

During our audit the **Municipality** did not provide a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the governmental-wide financial statements and, accordingly, the depreciation expense on those assets is not supported. Accounting principles generally accepted in the United States of America require that those capital assets been supported to present the assets, net position, and expense of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the *"Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan"* paragraphs, the financial statements referred to above present fairly, in all material respect, the respective financial position of the governmental activities of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**, as of June 30, 2015, and the respective changes in 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.

Basis for Disclaimer of Opinion on Business-Type Activities and on Major Enterprise Fund – Mi Arecibo, Inc.

The financial statements of the business-type activities and on major enterprise fund – Mi Arecibo, Inc. have not been audited as part of our audit of the **Municipality**'s basic financial statements. The business-type activities and major enterprise fund – Mi Arecibo, Inc. are included in the **Municipality**'s basic financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the *"Basis for Disclaimer of Opinion on the Business-Type Activities and on Major Enterprise Fund – Mi Arecibo, Inc."* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the business-type activities and on major enterprise fund – Mi Arecibo, Inc. of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico**, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 22 to the financial statements, the **Municipality** adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* during the fiscal year 2015. Our opinion is not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 21 to the financial statements, the 2014 financial statements have been restated for the implementation of GASB Statements Nos. 68 and 71, and to correct misstatements. Our opinions is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 23, budgetary comparison information on pages 102 and 103, and employees' retirement systems schedules on pages 104 through 106 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 related to management's discussion and analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to **Municipality**, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

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 – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 108 through 110, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization,* on pages 112 through 114, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The accompanying Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedule – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016 on our consideration of the **Municipality**'s internal control over financial reporting on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considered **Municipality**'s internal control over financial reporting and compliance.

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 31, 2016

Stamp No. E212814 was affixed to
the original report.

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This discussion and analysis of the Municipality of Arecibo (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;

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

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

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

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

FINANCIAL HIGHLIGHTS

The following comments about the financial condition and results of operations as reflected in the financial statements prepared for fiscal year 2015 deserve special mention:

1. The Municipality Government-Wide Financial Statements of the Primary Government, reported total assets of $162,678,420, total liabilities of $219,772,953, and a Net Position deficit of ($57,094,533).

2. The Municipality net position decreased by $106,222,964 or 201.39% due to the recognition of the Net Pension Liability of $103,844,712 and deferred outflows of resources of $1,460,180 as required by GASB Statement 68 for the Municipality's proportionate share in the estimated actuarial liability of the Employees' Retirement System and other adjustments.

3. The Financial Statements of the Government Business Type Activity, reported total assets of $141,641, total liabilities of $166,765 and a Net Position (Deficit) of ($25,124).

4. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of $12,514,302, an increase of $1,433,259 or 13% mainly due to a loan proceed of $7,045,000 and a deficiency of revenues and other financial resources under expenditures of $5,683,206.

5. In the fund financial statements, the governmental activities revenues decreased $12,919,701 or 20% and governmental activities expenditures decreased $10,876,021 or 16% in comparison with prior year, mainly due to the cancellation of the Head Start Program contract with the US Department of Health and Human Services.

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6. The general fund (the primary operating fund) reflected, on a current financial resource basis, a decrease of $679,104 or 6% due to a deficiency of excess revenues and other financing sources under expenditures.

7. As of the end of current fiscal year the Municipality's General Fund deficit amounted to $11,898,013, compared to a deficit of $11,218,909 in the prior fiscal year.

8. Deferred Revenues for unearned Volume of Business Taxes amounting to $5,662,290 are fully deposited in a General Fund bank account and are available for next year (2015-2016) operational activities.

9. On a budgetary basis, the General Fund actual expenditures exceeded actual revenues by $7,284,283, due to an unfavorable variances in revenues accounts of $6,886,728 and an unfavorable variance in expenditures accounts of $397,555.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the Municipality is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance. The comparative analysis is a meaningful and useful management tool for municipal management in the decision making process.

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

FINANCIAL STATEMENTS COMPONENTS

The basic financial statements consist of the government wide financial statements, the major funds financial statements, the notes to the financial statements which provide details disclosure and description of the most important items included in said statements, and required supplementary information. The basic financial statements include two types of statements that present unique views of the Municipality's financial position.

Mi Arecibo, Inc. (a business-type activity), is a legally separate entity. The financial statements of this entity have been included in the financial reporting of the Autonomous Municipality of Arecibo as a business type activity in accordance with GASB Statement No. 14; principally because of the nature of the services they provide, the Municipality's ability to impose its will, through the appointment of their governing authority, and because the corporation provide specific financial benefits to, or impose financial burdens on the Primary Government. The Municipality management has determined it would be misleading to exclude it from the Municipality's financial reporting entity.

This report also contains required supplementary information (budgetary schedule).

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Basic Financial Statement

The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide financial statements.

New Significant Accounting Standards Implemented

In fiscal year 2014-2015, the Municipality adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) that relate to pension activity:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Municipality's defined benefit pension plans. This Statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions.

The significant impact to the Municipality of implementing Statement No. 68 is the reporting of the Municipality's unfunded pension liability on the Municipality's full accrual basis of accounting government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement.

The measurement date for the pension liabilities is as of June 30, 2014. This date reflects a one year lag and was used so that these financial statements could be issued in an expedient manner. Activity (i.e. contributions made by the Municipality) occurring during fiscal year 2014-2015 are reported as deferred outflows of resources in accordance with Statement No. 71.

In order to implement the Statements, a prior period adjustment was made to the Municipality's July 1, 2014 net position. This prior period adjustment decreased the Municipality's net position by $102,384,532 from $50,839,514 to ($51,545,018) and reflects the reporting of: 1) net pension liabilities of $103,844,712, and 2) deferred outflows of resources of $1,460,180. Please refer to Note 17 for more information regarding the Municipality's pensions on pages 68 through 84.

The adoption of Statement No. 68 has no impact on the Municipality's governmental fund financial statements, which continue to report expenditures equal to the amount of the Municipality's actuarially determined contribution (formerly referred to as the "annual required contribution"). The calculation of pension contributions is also unaffected by this Statement.

Also, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* were issued by the Governmental Accounting Standards Board, but does not have impact on the Municipality's financial statements.

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Government-Wide Financial Statements

The government-wide financial statements are intended to provide readers with a broad overview of the Municipality's and its Component Unit financial position. They are presented using accounting methods very similar to a privately owned business, or the economic resources measurement focus, and full accrual accounting.

a. The Statement of Net Position present information on all of the Municipality's and its Business-Type activity assets, deferred outflow of resources, liabilities, and deferred inflow of resources, with the balance between them reported as Net Position. Over time, increases or decreases in net position can serve as an indicator of the Municipality's financial condition.

b. The Statement of Activities presents information showing how the Municipality's and its Business-Type Activities net position changed during the given fiscal year. In this statement all changes in net position are reported as soon as the underlying event giving rise to the change occurs regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods.

The government-wide financial statements distinguish functions of the Municipality that are principally supported by Taxes, Capital Grants and Contributions (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Municipality include general government, public safety, public works, culture and recreation, health and welfare, urban development, claims and losses, education, training and employment, special communities, projects, depreciation and principal plus interest on related long-term debt.

The reader will need to consider non-financial factors, such as changes in the Municipality's property tax base and the condition of the roads, to assess the overall health of the Municipality.

The government-wide financial statements can be found on pages 24 to 25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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. Accordingly, the governmental funds use the modified accrual basis of accounting. 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.

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The Municipality maintains five (5) individual governmental funds: General Fund, Special Revenue Fund - Head Start, Capital Projects Fund – State and Local Grants, Debt Service Fund and Other Governmental Funds. Information is shown in the balance sheet and in the statement of revenues, expenditures and changes fund balances.

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

The governmental funds financial statements and its correspondent reconciliations, can be found on pages 26 to 29 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 30 to 97 of this report.

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.

The budgetary comparison schedule can be found on the pages 99 to100 of this report.

Required Supplementary Information – Employees' Retirement System

The required supplementary information reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented immediately following the notes to the financial statements and can be found on pages 101-103 of this report.

Infrastructure Assets

Historically, a significant group of infrastructure assets such as roads, bridges, traffic signals, underground pipes not associated with utilities, have not been recognized nor depreciated in the accounting records of the Municipality. Governmental Accounting Standard Board ("GASB 34") requires that these assets be valued and reported in the Government-Wide Statement of Net Position.

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According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management system, (the modified approach) which periodically (at least every three years), by category, measures and demonstrate its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation.

In this particular respect, the Municipality has elected the use of recognizing depreciation under the useful life method and it contemplates to continue this treatment on said basis.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE – GOVERNMENT-WIDE FINANCIAL ANALYSIS

PRIMARY GOVERNMENT

Assets

As of June 30, 2015, the Municipality's total assets amounted to $157,418,565, an increase of $4,351,230 or 2.8% when compared with $153,067,335 in the prior year. The assets and deferred outflow of resources are under the amount of its liabilities and deferred inflows of resources by a deficit of ($54,503,408).

Capital assets net of depreciation – $124,729,004 – include items such as infrastructure, buildings, equipment, machinery, land and other tangible items. Infrastructures include streets, sidewalks, bridges, and others. The Municipality uses capital assets to provide services to the community and thus they are not available for immediate spending. Total capital projects still in process amount to $4,825,975. During the current fiscal year the Municipality's net capital assets increase by $1,353,654 or 1.10%.

Any resources needed to repay the debt associated with capital assets must be provided from sources other than the capital assets themselves since the capital assets cannot be liquidated to pay the related liabilities.

Deferred Outflows of Resources

At the end of fiscal year 2015, the deferred outflows of resources amounted to $6,830,373, an increase of $5,370,193 during the current fiscal year.

Liabilities

At the end of fiscal year 2015, total liabilities amounted to $217,858,396. The current liabilities decreased by $163,672 and at the end of the current fiscal year, the Municipality had outstanding long-term debt (bonds, notes and other) of $96,964,543. Also the Municipality make the recognition of the Employee's Pension Liability of $111,709,942 as required by GASB Statement No. 68 for the Municipality's proportionate share in the unaudited estimated actuarial determined Net Pension Liability of the Employees' Retirement System.

continue

During the current fiscal year, the Municipality's issued new long-term liabilities in the amount of $22,682,765. For more details see also Note 10 – Noncurrent Liabilities and Note 17 – Pension Plan.

Deferred Inflows of Resources

At the end of fiscal year 2015, the deferred inflows of resources amounted to $893,950 after the implementation of GASB Statement No. 68 during the current fiscal year. No adjustment was recognized to prior fiscal year because the amount was not available.

Net Position

The Statement of Net Position serves as an important indicator of the Municipality's financial position at the end of the fiscal year. In the case of the Municipality, liabilities and deferred inflow of resources exceed total assets and deferred outflow of resources for a deficit of $54,503,408 at the end of fiscal year 2015, as compared to a net position (deficit) balance of ($51,473,403) in prior fiscal year, after restated. The Municipality net position, as previously mentioned, decreased by $3,030,005, or 5.88% due to excess expenses over revenues and the recognition of the Net Pension Liability of $111,709,942 as required by GASB Statement 68 for the Municipality's proportionate share in the unaudited estimated actuarial liability of the Employee's Retirement System and other adjustments.

The net position (deficit) consist of the deficiency of assets and deferred outflow of resources under related liabilities and deferred inflow of resources. The negative portion of net position are the consequence of previous budgets which did not provide funding for incurred long-term obligations, such as compensated absences, claims and judgments, net pension liability and others. Historically, such obligations have been budgeted, as the Municipality pays, without providing funding for their future liquidation.

An additional portion of the Municipality's net position represents the investment in capital assets, such as land, building, equipment, among others, less any outstanding related debt used to acquire those assets. The Municipality uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although, the Municipality's investment in 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 Debt Service Fund, since the capital assets themselves cannot be used to liquidate these liabilities. The amounts restricted for debt service and for other purposes, represent another portion of the net position, and these are resources subject to external restrictions.

BUSINESS-TYPE ACTIVITY

As of June 30, 2015, the Municipality Business-Type activity (Mi Arecibo, Inc.) total assets amounted to $1,765; total liabilities amounted to $168,806; and net position deficit amounted to $(166,707). The Municipality of Arecibo invested the amount of $165,465 for the creation of this Corporation.

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CONDENSED STATEMENT OF NET POSITION

The following condensed Statement of Net Position shows on a comparative basis the most important components of the Net Position (Deficit) figure of the Governmental Activities of $(57,094,533), and the $(166,707) of the Business-Type Activities.

Condensed Statement of Net Position
As of June 30, 2015 and 2014

PRIMARY GOVERNMENT	2015	2014
ASSETS		
Current and Other Assets	$ 32,689,561	$ 29,691,985
Capital Assets	124,729,004	23,375,350
Total Assets	157,418,565	153,067,335
DEFERRED OUTFLOW OF RESOURCES	6,830,373	1,460,180
LIABILITIES		
Current and Other Liabilities	9,183,810	9,347,482
Long-Term Debt	208,674,485	196,563,483
Total Liabilities	217,858,396	205,910,965
DEFERRED INFLOW OF RESOURCES	893,950	-
NET POSITION		
Net Invested in Capital Assets	75,919,236	73,339,729
Restricted	28,512,768	26,315,968
Unrestricted (Deficit)	(158,835,412)	(151,039,147)
Total Net Position (Deficit)	($ 54,503,408)	($ 51,473,403)

BUSINESS TYPE ACTIVITY	2015	2014
ASSETS		
Total Assets	$ 2,099	$ 225,548
LIABILITIES		
Total Labilities	168,806	168,806
NET POSITION		
Unrestricted	($ 166,707)	$ 56,742

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Changes in Net Position

The Municipality's governmental activities net position (deficit) decreased by $5,820,913, due to due to excess expenses over revenues.

Approximately 59% of the Municipality's total revenue came from taxes, while 37% resulted from grants and contributions, including federal aid. Charges for Services provided 1%, Interest and others 3% of total revenues. The Municipality's largest expenses included items such as General Government, Education, Community and Urban Development, Culture and Recreation, Health and Sanitation, Public Safety, Public Works, and Interest on Long Term Debt.

The following condensed statement of activities includes the composition of revenues and expenses for the fiscal years ended on June 30, 2015 and 2014 of the Municipality Primary Government and its Business Type activity.

Condensed Statement of Activities
For the fiscal year ended June 30, 2015 and 2014

GOVERNMENTAL ACTIVITIES

	2015	2014
Program Revenues		
Charge for Services	$ 393,687	$ 557,568
Operating Grants and Contributions	10,869,446	20,414,006
Capital Grants and Contributions	-	-
General Revenue		
Property Taxes	17,501,268	16,733,188
Municipal Taxes	7,851,540	7,736,842
Municipal Sales and Use Tax	4,493,637	4,116,836
Grants and Contributions Unrestricted	9,956,113	11,544,744
Other Taxes	1,066,606	1,079,347
Miscellaneous	884,090	2,052,225
Total Revenues	53,016,387	64,234,756
Expenses		
General Government	26,234,696	22,550,441
Public Safety	4,475,650	3,469,341
Public Works	5,875,192	4,397,677
Health and Sanitation	10,453,865	11,038,752
Culture and Recreation	2,902,132	2,496,735
Community and Urban Development	957,490	3,087,231
Education	1,720,118	12,535,965
Interest	3,427,249	3,227,708
Total Expenses	56,046,392	62,803,850
Change in Net Position	(3,030,005)	1,430,906
Net Position Beginning of Year	51,473,403	49,480,223
Prior Period Adjustments	-	(102,384,532)
Net Position (Deficit) End of Year	($ 54,503,408)	($ 51,473,403)

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Condensed Statement of Activities
For the fiscal year ended June 30, 2015 and 2014
(Continued)

BUSINESS TYPE ACTIVITY

	2015	2014
Revenues	$ 372,697	$ 115,803
Expenses	596,146	59,526
Excess (Deficiency) of Revenues over (under) Expenses	(223,449)	56,277
Municipal Investment	-	465
Change in Net Position	138,724	56,742
Net Position Beginning of Year	56,742	-
Prior Period Adjustment	-	-
Net Position End of Year	($ 166,707)	$ 56,742

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

Combined Fund Balances

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $12,514,302, an increase of $1,433,259 or 13% in comparison with the prior year of $11,081,043. The combined fund balances include restricted fund balances amounting to $24,267,569. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restriction 1) to pay for specific program purposes ($0.4 million); 2) to pay for capital projects ($21.7 million) and 3) to pay for debt services ($2.1 million). Consequently, since there is an excess of restricted fund balances over total fund balances, a negative unassigned fund balance (or deficit) of $(11,918,267) was reported in the governmental funds at June 30, 2015.

continue

Analysis of Financial Position of Governmental Funds

Condensed Balance Sheet - Governmental Funds
For the fiscal year ended June 30, 2015 and 2014

	2015	2014
ASSETS		
Total Assets	$41,556,189	$38,413,113
LIABILITIES		
Total Liabilities	21,673,438	26,135,610
DEFERRED INFLOW OF RESOURCES	1,364,855	1,196,460
FUND BALANCE		
Nonspendable	165,000	165,000
Restricted	25,048,209	23,651,183
Committed	16,880	15,268
Unassigned (Deficit)	(6,712,193)	(12,750,408)
Total fund balance	$18,517,896	$11,081,043

Major Governmental Funds

General Fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to $8,416,897 at June 30, 2015. Such assets consist of: (1) Cash $5,559,203, (2) cash with fiscal agent $195,162 (3) taxes receivable $705,481, (4) receivable from intergovernmental grants and contributions $1,642,796, (5) due from other funds $314,255.

The GF's total liabilities and deferred inflow of resources amounted to $20,314,910 at June 30, 2015. Such liabilities are composed of: (1) account payable and accrued liabilities $181,812, (2) intergovernmental payables $5,974,843, (3) deferred revenues $5,662,290 (4) due to other funds $7,996,068, and (5) Deferred inflow of resources $499,897.

Deferred Revenues for unearned Volume of Business Taxes amounting to $5,662,290 are fully deposited in a General Fund bank account and are available for next year (2015-2016) operational activities.

At the end of the current fiscal year, the GF reported a fund deficit of $11,898,013 compared to a deficit of $11,218,909 in the prior fiscal year; reporting, on a current financial resource basis, a deficit increase of $679,104 or 6% due to excess expenditures over revenues and other financing sources.

Continue

Special Revenue fund – Head Start (HSF) – The HSF's total assets amounted to $592,557 at June 30, 2015, which consist mainly of restricted cash $210,633, due from Grantor $230,118, and due from other funds $151,806. The HSF's total liabilities and deferred inflow of resources amounted to $592,557 at June 30, 2015. Such liabilities are composed of: (1) account payable and accrued liabilities $27,005, due to other funds $333,000, (2) unearned revenues $162,537, and (3) unavailable revenues $70,015. At the end of the current fiscal year and for prior fiscal year, HSF's reported no fund balance.

Capital Activities Funds (CPF) – The CPF's total assets amounted to $23,349,253 at June 30, 2015, which consist mainly of (1) restricted cash $14,740,730, (2) due from other funds $8,443,523. At the end of the current fiscal year, CPF's reported accounts payable of $1,468,298, and total reserved fund balance reached $21,880,955 compared to $18,707,565 in the prior fiscal year, for an increase of $3,173,390 or 17%.

Debt Services Fund (DSF) – The DSF's total assets amounted to $9,379,319 at June 30, 2015, which consist of restricted cash in fiscal agent $7,297,066 and taxes receivable of $2,082,253. The DSF's total liabilities and deferred inflow of resources amounted to $7,211,119 at June 30, 2015, which are composed of: (1) matured bonds due and payable $3,623,000, (2) interest payable $1,505,865 and (3) deferred inflow of resources $2,082,254. At the end of the current fiscal year, DSF's total reserved fund balance reached $2,168,200 compared to $2,802,244 in the prior fiscal year, for a decrease of $634,044 or 23%.

Analysis of Operating Results of Governmental Funds

Condensed Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
Fiscal Years Ended June 30. 2015 and 2014

	2015	2014
Revenues		
Total Revenues	$52,847,992	$64,246,898
Expenditures		
Total Expenses	56,575,186	67,886,424
Excess (deficiency) Revenues over Expenditures	(3,727,194)	(3,639,526)
Other Financing Sources Net	7,254,000	8,159,535
Changes in Fund Balance - Net	3,526,806	4,520,009
Fund Balance Beginning of Year	11,081,043	6,561,034
Prior Period Adjustments	3,910,047	-
Fund Balance End of Year	$12,514,302	$11,081,043

continue

As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of $12,514,302, an increase of $1,433,259 or 13% mainly due a loan proceed of $7,254,000 and a deficiency of revenues over expenditures of $5,683,206.

In the fund financial statements, the governmental activities revenues decreased $12,919,701 or 20% while governmental activities expenditures decreased $10,876,021 or 16% in comparison with prior year, mainly due to the cancellation of the Head Start Program contract with the US Department of Health and Human Services.

Major Governmental Funds

General Fund (GF) – The total fund balance of the GF decreased by $679,104 or 6% during current fiscal year, due to excess expenditures over revenues and other financing sources.

The GF reported total revenues of $33,300,914. Approximately 69% ($23,034,361) of the GF's total revenues for the current fiscal year came from property taxes, municipal license, construction excise taxes and sales and use taxes, while 27% ($9,095,631) resulted from intergovernmental grants and contributions, charges for services provide 1% ($172,112), and miscellaneous revenues 3% ($998,810).

The GF reported total expenses of $36,121,644. The largest expenses of the GF for the fiscal year ended June 30, 2015 were related to: (1) general administrative and operating costs $24,261,099, which were classified as "General government; and Mayor and Municipal Legislature", (2) public works $3,824,228, (3) public safety $3,676,573, (4) health, sanitation and solid waste disposal $2,269,797, (5) culture and recreation $1,700,875, and (6) other operations $389,072.

Other financing sources of $2,141,626 were net transfers from other funds of $4,872,289, and operational loan payments of $2,730,663.

Special Revenue fund – Head Start (HSF) – Total revenue of HSF's for the current fiscal year came from Federal Grant $1,646,058. HSF's total expenditures of $1,714,971, for the current fiscal year were mainly used for public instruction services and human services and welfare. No change in fund balance was reported for the current fiscal year.

Capital Activities Funds (CAF) – The CAF's total fund balance increased by $3,173,390 or 17% during current fiscal year. Total revenue of CAF's for the current fiscal year came from Local and Federal Governments Grants $1,311,258. CAF's total expenditures for the current fiscal year were mainly used for capital outlays $3,237,953 and urban development $96,579. Other financing sources were net transfers to other funds ($1,919,951) and proceed from bonds issuance of $7,045,000.

Debt Services Fund (DSF) – The total fund balance of the DSF's decreased by $634,044 or 22% during current fiscal year. Property taxes provided $6,412,192 (86%) of DSF's total revenues, and Sales and use taxes $1,007,704 (14%) for a total revenue of $7,419,896 in the current fiscal year. DSF's total expenditures for the current fiscal year were related to payment of principal and interests $7,726,234. Other financing sources amounted to $327,706, for net transfers to other funds.

continue

GENERAL FUND BUDGETARY HIGHLIGHTS

For fiscal year 2014-2015, the Municipal Legislature approved an original budget for the General Fund of $39,591,323. During the year, there were amendments of $396,592 for a final approved budget of $39,960,915. The budgetary comparison reflected an unfavorable variance of $7,284,283 due to actual amount of charges to appropriations (budgetary basis) of $40,038,878 with an unfavorable variance of $397,555 or 10% and an unfavorable variance of $6,886,728 or 17% in actual amounts of resources (budgetary basis) of $32,754,595.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2015, amounted to $180,522,792, which upon deduction of accumulated depreciation in the amount of $55,518,913; produce a net book value attributable to capital assets in the amount of $125,003,879. This investment includes land, construction in progress, buildings, improvements, equipment, infrastructure and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The net increase of $1,628,529 in the Municipality's investment in capital assets for the current fiscal year represented approximately 1 percent of net book value. Depreciation charges for the year totaled $3,183,523.

The following chart summarizes the Municipality's capital assets for the fiscal years ended June 30, 2015 and 2014.

	2015	2014
Land	$ 57,595,654	$ 57,595,654
Work of Arts	157,261	157,261
Construction in Progress	4,825,975	2,865,168
Building and Building Improvements	46,375,711	45,939,408
Infrastructure and Infrastructure Improvements	15,223,427	15,771,754
Machinery and Equipment	825,851	1,046,105
Total	$125,003,879	$123,375,350

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has $21,880,955 of unexpended proceeds mainly from bond and notes issuances that are committed to future construction activities.

continue

Debt Administration

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

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

The Municipality is required under applicable law to levy the Special Additional Tax in such amounts as shall be required for the payment of its general obligation municipal bonds and notes. In addition, principal of and interest on all general obligation municipal bonds and notes and on all municipal notes issued in anticipation of the issuance of general obligation bonds issued by the Municipality constitute a first lien on the Municipality's Basic Tax revenues. Accordingly, the Municipality's Basic Tax revenues would be available to make debt service payments on general obligation municipal bonds and notes to the extent that the Special Additional Tax levied by the Municipality, together with moneys on deposit in the Municipality's Redemption Fund, are not sufficient to cover such debt service. It has never been necessary to apply Basic Taxes to pay debt service on general obligation debt of the Municipality.

Under current state statutes, the Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property tax restricted for debt services.

On June 30, 2015, the Municipality had $92,151,993 in bonds, notes and other long-term debts outstanding, as compared to $88,880,339 in prior year, a net increase of $3,271,654, and an Employee's Pension Plan liability of $111,709,942 for a total Long-Term Debt of $203,861,935, as shown in table below.

LONG-TERM LIABILITIES

DESCRIPTION	BALANCE JULY 1, 2014	INCREASES AND NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015
Governmental Funds:				
General Obligations Bonds	$ 39,712,000	$ 7,254,000	$ 3,769,000	$ 43,197,000
Special Obligations Bonds	20,978,000	-	364,000	20,614,000
Other Obligations	28,190,339	4,222,305	4,071,651	28,340,993
	$ 88,880,339	$ 11,476,305	$ 8,204,651	$ 92,151,993
Pension Plan Liability	$ -	$111,709,942	$ -	$ 111,709,942
Total Long-Term Debt	$ 88,880,339	$123,186,247	$ 8,204,651	$ 203,861,935

continue

Additional information on the Municipality's long-term debt can be found on Note 10 of the Basic Financial Statements.

Deferred Outflows / Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources are new to the Municipality's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being a Municipality asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. GASB 71 requires that contributions made during the fiscal year to the retirement system be reported as deferred outflows of resources. Consequently, the majority of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the Municipality as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. The General Fund next year 2015-2016 budget for resources and appropriations was approved in the amount of $37,974,269. This amount represents a decrease of $1,986,646 or 5% under fiscal year 2014-2015 budget basis of $39,960,915 and a decrease of $2,064,609 or 5% under fiscal year 2014-2015 actual amounts of charges to appropriations on budgetary basis of $40,038,878.

continue

In Ordinances 28, 37 and 80 approved by the Municipal Legislature on January 15, January 29 and June 12, 2013, respectively, the legislative body authorized the Mayor to establish financial and administrative policies due to fiscal emergency. This Ordinances establish policies of personnel management, awarding of existent and future contracts, equipment acquisition, determining and collecting accounts receivable, legislative body expenditures, use of municipal vehicles, waste management, land disposition, use of facilities fees, sale of advertisement spots, service fees, reduction of legislators fee, and joint ventures with other government agencies and municipalities to provide services.

Federal and State grant revenues may vary if new grants are available but the revenues and expenditures are very predictable.

Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

SUBSEQUENT EVENTS

After June 30, 2015 the Municipality entered into an agreement with the Commonwealth of Puerto Rico Retirement System for installment payment of the amount due for $1,123,533 of special laws 2015-2016. The agreement requires for 20 monthly installments of $56,176 until the liquidation of the debt.

FINANCIAL CONTACT

The Municipality's financial statements are designed to present users (citizens, taxpayer, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer at PO Box 1086, Arecibo, Puerto Rico 00613, or call (787) 878-2299 or (787) 333-1063.

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	GOVERNMENTAL ACTIVITIES	BUSINESS - TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash	$ 8,163,770	$ 1,765	$ 8,165,535
Cash with Fiscal Agent	21,966,576	-	21,966,576
Receivables (Net):			
Property Taxes	1,176,805	-	1,176,805
Federal Grants	531,343	-	531,343
Due from Government Units	387,686	-	387,686
Sales and Usage Taxes	298,381	-	298,381
Internal Balances	165,000	(165,000)	-
Other	-	334	334
Capital Assets:			
Land and Construction in Progress	62,578,890	-	62,578,890
Other Capital Assets [Net of Accumulated Depreciation]	62,150,114	-	62,150,114
Total Capital Assets	124,729,004	-	**124,729,004**
TOTAL ASSETS	**157,418,565**	**(162,901)**	157,255,664
DEFERRED OUTFLOWS OF RESOURCES:			
Contributions to Employees Retirement System	6,830,373	-	6,830,373
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**6,830,373**	**-**	**6,830,373**
LIABILITIES:			
Accounts Payable and Accrued Expenses	1,715,215	3,806	1,719,021
Accrued Interest	1,505,865	-	1,505,865
Due to Governmental Units	33,926	-	33,926
Unearned Revenues	5,928,804	-	5,928,804
Noncurrent Liabilities:			
Due Within One Year	9,744,339	-	9,744,339
Due in More than One Year	87,220,305	-	87,220,305
Net Pension Liabilities	111,709,942	-	111,709,942
TOTAL LIABILITIES	**217,858,396**	**3,806**	**217,862,202**
DEFERRED INFLOWS OF RESOURCES:			
Unamortized Investment in Employees Retirement System	893,950	-	893,950
TOTAL DEFERRED INFLOWS OF RESOURCES	**893,950**	**-**	**893,950**
NET POSITION:			
Net Investment in Capital Assets	75,919,236	-	75,919,236
Restricted for:			
Capital Projects	21,881,265	-	21,881,265
Debt Service	6,560,904	-	6,560,904
Head Start	70,599	-	70,599
Community Development Projects	-	-	-
Unrestricted (Deficit)	(158,935,412)	(166,707)	(159,102,119)
TOTAL NET POSITION (DEFICIT)	**$ (54,503,408)**	**$ (166,707)**	**$ (54,670,115)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges For Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business - Type Activities**	**Total**
PRIMARY GOVERNMENT:							
Governmental Activities:							
Mayor and Municipal Legislature	$ 3,379,884	$ -	$ -	$ -	$ (3,379,884)	$ -	$ (3,379,884)
General Government	22,854,812	-	-	-	(22,854,812)	-	(22,854,812)
Public Safety	4,475,650	-	-	-	(4,475,650)	-	(4,475,650)
Public Works	5,875,192	-	-	-	(5,875,192)	-	(5,875,192)
Culture and Recreation	2,902,132	221,576	-	-	(2,680,556)	-	(2,680,556)
Health and Sanitation	9,987,030	-	6,142,926	-	(3,844,104)	-	(3,844,104)
Solid Waste Disposal	919,738	172,111	-	-	(747,627)	-	(747,627)
Human Services and Welfare	1,262,485	-	1,293,864	-	31,379	-	31,379
Urban Development	957,490		1,771,080	-	813,590	-	813,590
Reimbursement to Grantor Agency	-				-	-	-
Public Instruction	4,730	-	1,661,576	-	1,656,846	-	1,656,846
Landfill Closure and Post-Closure Care Costs	-	-	-	-	-	-	-
Interest on Long-Term Debt	3,427,249	-	-	-	(3,427,249)	-	(3,427,249)
Total Governmental Activities	**56,046,392**	**393,687**	**10,869,446**	**-**	**(44,783,259)**	**-**	**(44,783,259)**
Business - Type Activities:							
Mi Arecibo, Inc.	233,973	372,697	-	-	-	138,724	138,724
Total Business - Type Activities	**233,973**	**372,697**	**-**	**-**	**-**	**138,724**	**138,724**
Total Primary Government	**$ 56,280,365**	**$ 766,384**	**$ 10,869,446**	**$ -**	**(44,783,259)**	**138,724**	**(44,644,535)**
	General Revenues:						
	Taxes:						
	PropertyTaxes, levied for General Purposes				10,904,469	-	10,904,469
	PropertyTaxes, levied for Debt Service				6,596,799	-	6,596,799
	Sales and Usage Taxes				4,493,637	-	4,493,637
	Volume of Business Taxes				7,851,540	-	7,851,540
	Construction Excise Taxes				1,066,606	-	1,066,606
	Intergovernmental				9,956,113	-	9,956,113
	Miscellaneous				884,090	-	884,090
	Capital Contribution				-	-	-
	Total General Revenues				41,753,254	-	41,753,254
	CHANGES IN NET POSITION				**(3,030,005)**	**138,724**	**(2,891,281)**
	Net Position, As Restated – Beginning of Year				(51,473,403)	(163,808)	(51,637,211)
	NET POSITION – ENDING OF YEAR				**$ (54,503,408)**	**$ (25,084)**	**$ (54,528,492)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash	$ 7,089,163	$ 211,217	$ -	$ 313,171	$ 550,219	$ 8,163,770
Cash with Fiscal Agent	195,162	-	7,297,065	14,466,231	8,118	21,966,576
Receivables:						
Property Taxes	407,101	-	769,704	-	-	1,176,805
Sales and Usage Taxes	298,381	-	-	-	-	298,381
Federal Grants	-	230,118	-	-	301,225	531,343
Due from Other Funds	413,985	151,806	-	8,236,937	63,900	8,866,628
Due from Governmental Units	92,213	-	-	-	295,473	387,686
Loan Receivable - Component Unit	-	-	-	165,000	-	165,000
Total Assets	**$ 8,496,005**	**$ 593,141**	**$ 8,066,769**	**$ 23,181,339**	**$ 1,218,935**	**$ 41,556,189**
LIABILITIES:						
Account Payable	$ 181,812	$ 27,005	$ -	$ 1,300,074	$ 206,324	$ 1,715,215
Bond Payable	-	-	3,623,000	-	-	3,623,000
Accrued Interest	-	-	1,505,865	-	-	1,505,865
Due to Governmental Units	33,926	-	-	-	-	33,926
Due to Other Funds	8,023,308	333,000	-	-	510,320	8,866,628
Unearned Revenues	5,662,290	162,537	-	-	103,977	5,928,804
Total Liabilities	**13,901,336**	**522,542**	**5,128,865**	**1,300,074**	**820,621**	**21,673,438**
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues - Commonwealth of Puerto Rico	499,314	-	769,704	-	-	1,269,018
Unavailable Revenues - Federal Grants	-	70,599	-	-	25,238	95,837
Total Deferred Inflows of Resources	**499,314**	**70,599**	**769,704**	**-**	**25,238**	**1,364,855**
FUND BALANCES (DEFICITS):						
Nonspendable	-	-	-	165,000	-	165,000
Restricted	782,598	-	2,168,200	21,716,265	381,146	25,048,209
Committed	-	-	-	-	16,880	16,880
Assigned	-	-	-	-	-	-
Unassigned (Deficit)	(6,687,243)	-	-	-	(24,950)	(6,712,193)
Total Fund Balances	**(5,904,645)**	**-**	**2,168,200**	**21,881,265**	**373,076**	**18,517,896**
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	**$ 8,496,005**	**$ 593,141**	**$ 8,066,769**	**$ 23,181,339**	**$ 1,218,935**	**$ 41,556,189**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total Fund Balances – Government Funds (Page 22)		**$ 18,517,896**
Amount reported for Governmental Activities in the Statement of Net Position (Page 20) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 62,421,629	
Depreciable Capital Assets	117,819,230	
Accumulated Depreciation	(55,511,855)	
Total Capital Assets		124,729,004
Deferred Outflows of Resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds.		6,830,373
Some of the **Municipality**'s revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unavailable in the funds:		
HEAD START	70,599	
SBGP	25,238	
Christmas Bonus Reimbursement	92,213	
MRCC Liquidation	1,176,705	
Total Unavailable Revenues		1,364,755
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(893,850)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(59,653,000)	
Landfill Closure and Post-Closure	(17,843,595)	
Law 42	(1,003,545)	
Law 146	(745,431)	
Water and Sewer Authority	(3,073,665)	
Treasury Department	(593,794)	
Department of Labor	(343,430)	
Retirement System	(4,483,179)	
Christmas Bonus	(368,958)	
Claims and Judgments	(601,033)	
Net Pension Liability	(111,709,942)	
Compensated Absences	(4,632,014)	
Total Noncurrent Liabilities		(205,051,586)
Total Net Position of Governmental Activities (Page 20)		**$ (54,503,408)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	$ 10,630,283	$ -	$ 6,412,193	$ -	$ -	$ 17,042,476
Volume of Business Taxes	7,851,540	-	-	-	-	7,851,540
Sales and Usage Taxes	3,485,932	-	1,007,705	-	-	4,493,637
Construction Excise Taxes	1,066,606	-	-	-	-	1,066,606
Intergovernmental	9,434,201	-	-	2,082,733	465,377	11,982,311
Federal Grants	-	1,715,387	-	-	7,418,258	9,133,645
Interest on Deposits		-	-	-	-	-
Charges for Services	172,111	-	-	-	-	172,111
Rent	221,576	-	-	-	-	221,576
Miscellaneous	777,191	-	-	-	106,899	884,090
Total Revenues	**33,639,440**	**1,715,387**	**7,419,898**	**2,082,733**	**7,990,534**	**52,847,992**
EXPENDITURES:						
Current:						
Mayor and Municipal Legislature	3,060,983	-	-	-	-	3,060,983
General Government	19,698,552	-	-	-	1,827	19,700,379
Public Safety	3,487,577	-	-	-	531,264	4,018,841
Public Works	3,785,284	-	-	-	-	3,785,284
Culture and Recreation	1,700,875	-	-	-	6,300	1,707,175
Health and Sanitation	1,032,034	-	-	-	-	1,032,034
Solid Waste Disposal	1,133,417	-	-	-	-	1,133,417
Public Instruction	-	1,715,388	-	-	-	1,715,388
Human Services and Welfare	104,346	-	-	-	7,788,280	7,892,626
Urban Development	194,748	-	-	77,946	-	272,694
Reimbursement to Grantor Agency	-	-	-	-	-	-
Capital Outlay	233,268	-	-	4,200,169	96,692	4,530,129
Debt Service:						
Principal	-	-	4,298,987	-	-	4,298,987
Interest and Other Charges	-	-	3,427,249	-	-	3,427,249
Total Expenditures	**34,431,084**	**1,715,388**	**7,726,236**	**4,278,115**	**8,424,363**	**56,575,186**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(791,644)**	**(1)**	**(306,338)**	**(2,195,382)**	**(433,829)**	**(3,727,194)**
OTHER FINANCING SOURCES (USES):						
Proceed of Bonds	-	-	-	7,254,000	-	7,254,000
Transfers – In	4,711,292	1	1,222,294	1,183,142	38,381	7,155,110
Transfers – Out	(2,443,816)	-	(1,550,000)	(3,139,675)	(21,619)	(7,155,110)
Total Other Financing Sources (Uses)	**2,267,476**	**1**	**(327,706)**	**5,297,467**	**16,762**	**7,254,000**
Net Change in Fund Balances	**1,475,832**	**-**	**(634,044)**	**3,102,085**	**(417,067)**	**3,526,806**
Fund Balances (Deficit), As Restated – Beginning	(7,380,477)	-	2,802,244	18,779,180	790,143	14,991,090
FUND BALANCES (DEFICIT) – ENDING	**$ (5,904,645)**	**$ -**	**$ 2,168,200**	**$ 21,881,265**	**$ 373,076**	**$ 18,517,896**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Net Change in Fund Balances – Government Funds (Page 24)		**$ 3,526,806**
Amount reported for Governmental Activities in the Statement of Activities (Page 21) 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. In the current period, these amounts are:		
Capital Outlays	$ 4,530,129	
Depreciation Expense	(3,176,475)	
Excess of Depreciation Expense over Capital Outlays		1,353,654
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa:		
HEAD START	(53,811)	
SBGP	(4,413)	
Christmas Bonus	(232,173)	
MRCC Liquidation	458,792	
Total of Revenues		168,395
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurrent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(7,254,000)
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		4,298,987
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Christmas Bonus	279,814	
Increase in Retirement System Debt	(940,528)	
Increase in Water and Sewer Authority Debt	(909,523)	
Decrease in Treasury Department Debt	16,567	
Decrease in Landfill Closure and Post-Closure Care Costs	213,679	
Increase in Claims and Judgments	(577,533)	
Decrease in Compensated Absence	182,664	
Change in Net Pension Liability	(3,388,987)	
Total Additional Expenses		(5,123,847)
Change in Net Position of Governmental Activities (Page 21)		**$ (3,030,005)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

	BUSINESS - TYPE ACTIVITIES
ASSETS:	
Cash	$ 1,765
Cash with Fiscal Agent	-
Receivables (Net):	
Property Taxes	-
Federal Grants	-
Due from Government Units	-
Sales and Usage Taxes	-
Internal Balances	-
Other	334
Capital Assets:	
Land and Construction in Progress	-
Other Capital Assets [Net of Accumulated Depreciation]	-
Total Capital Assets	-
TOTAL ASSETS	**2,099**
DEFERRED OUTFLOWS OF RESOURCES:	
Contributions to Employees Retirement System	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**-**
LIABILITIES:	
Accounts Payable and Accrued Expenses	3,806
Accrued Interest	-
Due to Governmental Units	165,000
Unearned Revenues	-
Noncurrent Liabilities:	
Due Within One Year	-
Due in More than One Year	-
Net Pension Liabilities	-
TOTAL LIABILITIES	**168,806**
DEFERRED INFLOWS OF RESOURCES:	
Unamortized Investment in Employees Retirement System	-
TOTAL DEFERRED INFLOWS OF RESOURCES	**-**
NET POSITION:	
Net Investment in Capital Assets	-
Restricted for:	
Capital Projects	-
Debt Service	-
Head Start	-
Community Development Projects	-
Unrestricted (Deficit)	(166,707)
TOTAL NET POSITION (DEFICIT)	**$ (166,707)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS
OPERATING REVENUES:	
Sales	$ 372,697
Total Operating Revenues	372,697
OPERATING EXPENSES:	
Contractual Services	165,629
Payroll Expenses	81,237
Fringes Benefits	3,375
Repair and Maintenance	6,994
Supplies and Other Expenses	338,911
Total Operating Expenses	596,146
CHANGES IN NET POSITION	**(223,449)**
NET POSITION, BEGINNING	56,742
NET POSITION, ENDING	**$ (166,707)**

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement.

		BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	$	372,697
Payments to Suppliers		(596,146)
Net Cash Provided by Operating Activities		(223,449)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		-
CASH FLOWS FROM INVESTING ACTIVITIES:		-
Net Increase (Decrease) in Cash		**(223,449)**
Cash, Beginning		225,214
Cash, Ending	**$**	**1,765**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$	(223,449)
Adjustment to reconcile operating income to net cash provided by Operating Activities:		
(Increase) Decrease in Current Assets:		
Receivables		-
Increase (Decrease) in Current Liabilities:		
Accounts Payable		-
Net Cash Provided by Operating Activities	**$**	**(223,449)**
Noncash Investing and Financing Activities:		
Capital Contributions from Governmental Funds	$	-

The accompanying *Notes to the Basic Financial Statements* are an integral part of this statement

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1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1515, and operates as a governmental unit of the Commonwealth of Puerto Rico (Commonwealth), under the Act Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Municipality is governed by a Mayor and is elected every four years in the general elections of the Commonwealth. The legislative body (Municipal Legislature) consists of 16 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable. The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity*, describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) 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; (b) 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, and; (c) 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.

continue

1. FINANCIAL REPORTING ENTITY – continuation

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

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the Governmental and Business-Type Activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either Governmental or Business-Type Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's Discussion and Analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned. Governmental Activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-Type Activities, which rely, to a significant extent, on fees and charges to external customers for support.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's Governmental Activities and Business-Type Activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net positions. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different Business-Type Activities of the Municipality and for each function of the Municipality's Governmental Activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds and Proprietary Fund Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures (Expenses) and Changes in Fund Balance/Net Position*] provide information about the Municipality's funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Head Start Fund – This is the fund used to account for all transactions of the Head Start Program. The objectives to this program are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged pre-school children and infants and toddlers so that the children will attain school readiness. It is used to account for all financial resources from the Federal Government (US Department of Health and Human Services) and the corresponding matching funds.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

Capital Activities Fund – This fund is used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds.

continue

2. OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2015 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2015.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

The proprietary funds – enterprise – 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 goods and services (including depreciation) be financed or recovered primarily through user charges, or where the Municipality has decided that periodic determination of revenues earned and expenses incurred is appropriate.

The Municipality includes as operating transactions in the enterprise funds any activity undertaken in the course of ordinary business, as well as ancillary activities or activities that are a natural extension of, or that result from, these activities. Transactions resulting from events or transactions clearly distinct from the ordinary activities and which are not expected to occur frequently or regularly are reported as non-operating transactions.

The proprietary fund financial statements provide separate information of Mi Arecibo, Inc,, a for-profit corporation, is created by Ordinance No. 4, Series 2013-2014 on November 12, 2013, in accordance with Article 2.004 (u) of the Law 81-1991, as amended, known as the Autonomous Municipalities Act. Is governed by a Board of Directors compose by five (5) members of the Municipality officers designated by the Mayor, which are considered to be major proprietary funds of the Municipality. In prior year, the Mi Arecibo, Inc, was considered and reported as a discretely component unit (DCU). However, by GAAP criteria, this enterprises need not be considered as DCU. Accordingly, the Municipality reports the following major enterprise fund:

Mi Arecibo, Inc. – This is the fund used to account for the administration and complete control and supervision of the following municipal properties: Passive Park on Victor Rojas Marginal; one Kiosk on Victor Rojas Marginal; and a new Kiosk established on the Municipal Public Square.

It's authorized to construct facilities, owned, or operated municipal facilities, and may sue and be sued and the Municipality will not respond for claims that are performed against the corporation. Twenty-five percent (25%) of the profits will be used to expand the franchises and create more jobs, or to ensure the operation thereof, if an economic crisis affect the production costs or reduce consumption. The remainder of the proceeds shall be deposited in the Municipality bank accounts in accordance with the Law 81-1991, as amended.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The non-major funds are combined in a single column in the GFFS. As a general rule the effect of interfund activity has been eliminated from the GWFS.

The financial statements of the proprietary funds are the following:

Statement of Net Position – Assets and liabilities are presented in a classified format to distinguish between current and long term assets and liabilities. No deferred outflows/inflows of resources are presented.

Statement of Revenues, Expenses and Changes in Fund Net Position – Revenues and expenses are reported by distinguishing between operating and non-operating revenues and expenses.

Statement of Cash Flows – The primary purpose of the *Statement of Cash Flows* is to provide relevant information about the cash receipts and disbursements of the Municipality during the fiscal year. The information of the *Statement of Cash Flows* should help financial report users assess (1) the Municipality's ability to generate future net cash flows; (2) ability to meet its obligation as they come due; (3) its needs for external financing; (4) the reasons for differences between operating income and associated cash receipts and disbursements and the effects on the entity's financial position of operating, capital and related financing activities, non-capital related financing activities and investment activities during the period.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column. Similarly, balances between the funds included in Business-Type Activities (i.e. the enterprise funds) are eliminated so that only the net amount is included as internal balances in the Business-Type Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column. Similarly, balances between the funds included in Business-Type Activities are eliminated so that only the net amount in included as internal balance in the Business-Type Activities column.

The Municipality reports its financial position (Balance Sheet) and results of operations (*Statement of Revenues, Expenditures and Changes in Fund Balances*) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees Retirement System

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, that is effective for the Municipality's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Municipality's Contributions to the Employees' Retirement Systems.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide and Proprietary Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*. Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

The enterprise funds follows the accrual basis of accounting. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash, respectively. The enterprise funds also distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. Revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized as soon as they are 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 these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2015, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2015, which are recorded as governmental fund liabilities of June 30, 2015 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. 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*.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

Original Budget

1. Prior of May 15 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message.

2. The budget document is available for public inspection prior to its approval by the Municipal Legislature.

3. The Office of the Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law.

4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance to be effective on July 1.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Act No. 154 of December 19, 2013 amended Sections 7.002 and 7.003 of Act. 81 of 1991, as amended, known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991" for the purpose of establishing the budget of each municipality shall not exceed income certified in the external audit report or "single audit" for the previous fiscal year in revenue from Volume of Business Taxes, Sales and Usage Taxes (SUT), and Licenses and Permits; and that in these cases, the estimated revenue mechanism cannot be used to support the operating budget of a municipality. Also, in cases where the municipality reflects a surplus in the current budget, the surplus should be used to pay off the accumulated deficit. As an exception, the municipality may establish an Emergency Fund that draws no more than thirty percent (30%) of the surplus that can only be used when there is an emergency declaration made by the Governor of the Commonwealth of Puerto Rico that apply to the municipality. In cases where the municipality has no accumulated deficit, the surplus may be used to increase the Emergency Fund of the municipality.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying *Budgetary Comparison Schedule*, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the *Budgetary Comparison Schedule – General Fund* reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

   The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations in the general government function of the general fund by $454,976 corresponding to the contribution "in lieu of tax" from the Quasi-public Corporation, Puerto Rico Electric Power Authority which revenue are included in the intergovernmental revenues; and urban development by $221,616. While overspending of this appropriation is authorized by law up to $100,000 if related to cases involving imminent public endangerment (e.g., the need to inspect properties with damage from collision, natural disaster, fire, or water to determine their inherent stability), which was the case this year, it is nevertheless considered a budgetary violation. Further, the overspending comes with a consequence for the subsequent year's budget.

D. Assets, Liabilities, and Net Position

1) Cash, Cash Equivalent, and Cash with Fiscal Agent

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Cash with fiscal agent in the Debt Service Fund represents special additional property tax collections retained by the Commonwealth, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the Governmental Activities and Business-Type Activities are reported in the government-wide financial statement as "interfund balances".

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2015. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Commonwealth. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) Inventories

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) Capital Assets

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the Municipality as assets with an initial, individual cost of more than $25 (amount not rounded) and an estimated useful life in excess of two years. For improvements other than buildings, the capital outlay must be greater than $10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the GWFS regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by Governmental Activities) the Municipality chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the Municipality constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Municipality values these capital assets at the estimated fair value of the item at the date of its donation.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

DESCRIPTION	YEARS
Buildings and Improvement	40
Infrastructure	40
Vehicles	5
Furniture and Fixtures	5
Machinery and Equipment	3-5

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

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2015, all Work of Art are considered inexhaustible.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

5) Unearned Revenues

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

6) Deferred Outflows/Inflows of Resources

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

Based on this concept, the **Municipality** reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 68. Note 18 presents additional information about the composition of these items.

- Various types of revenues earned but not available within 60 days of fiscal year end.

Note 7 provides details on deferred outflows of resources and deferred inflows of resources.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from three sources: Christmas Bonus Reimbursement from the Commonwealth, Property Taxes from MRCC liquidation, and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

8) Compensated Absences

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed at the current rate. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria: (1) the Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered; (2) the obligation relates to rights that vest or accumulate; (3) payment of the compensation is probable; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2015. All vacation pay is accrued when incurred in the GWFS and PFFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

9) Claims and Judgments

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund when the liability is incurred. The Long-Term Liabilities includes, when appropriate, an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

10) Accounting for Pension Costs

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pronouncements related to the accounting and financial reporting requirements for pension related expenses and liabilities. GASB Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*, replaces the requirements of GASB Statement Nos. 25 and 50 for plans administered by pension systems through trusts or equivalent arrangements, and was implemented by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) as of June 30, 2014.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, *an amendment to GASB 68*, is required to be implemented simultaneously with the provisions of GASB 68.

The Municipality implemented both GASB Statement Nos. 68 and 71 for the fiscal year ending June 30, 2015 and the financial statements of the Municipality for the year ended June 30, 2014 were restated accordingly.

Measurement Frequency and Valuation Requirements

As mentioned, GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014. Under GASB 68, there are two key dates – the measurement date and the actuarial valuation date. The Net Pension Liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period (measurement date). The Net Pension Liability can be measured from an actuarial valuation as of the measurement date or roll forward amounts from an actuarial valuation as of a date no more than 30 months plus 1 day prior to the employer's most recent fiscal year-end. The actuarial valuation should be performed at least biennially.

The Municipality will use June 30, 2014 as both the measurement date and the actuarial valuation date for purposes of implementing GASB 68 for both the Defined Benefit Pension Plan and Defined Contribution Hybrid Program. In future years, the calculation of the Net Pension Liability and Pension Expense will always be one year behind the most current fiscal year. For example, actuarial valuations with measurement date as of June 30, 2014 will be used to report the Net Pension Liability on the Municipality's Fiscal Year 2014-2015 financial statements.

Impact on the Financial Statements – Change in Accounting Principles

Changes resulting from GASB 68 requirements apply only to the government-wide financial statements. GASB 68 does not apply to governmental funds; they will continue to report pension expenditures based on contributions made during the year. There is no change in cash flow, contribution rates or General Fund budgeted expenditures associated with implementation of GASB 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the ARC concept for recognizing pension expense, resulting in the separation of accounting from funding.

For illustrative purposes, the Finance Department calculated certain line items in the financial statements affected by the New Pension Standards using the actuarial valuation reports as of June 30, 2014 and the highlights of the impact to the government-wide financial statements would have been on the June 30, 2014 financial statements.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- The *Net Position* (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) at June 30, 2014 for the Municipality would have been ($51,473,403), a $102,384,532 decrease (201.10%) from the previously reported net position of $50,911,129 (pre-GASB No. 68 implementation).

- *Total Liabilities* would have been $206,000,918 as of June 30, 2014, an increase of $103,844,712 or 101.65% compared to the previously reported $102,156,206 total liabilities (pre-GASB No. 68 implementation).

- Under GASB No. 68, *Pension Expense* would have been $4,617,612, an increase of $3,157,432 or 216.24% compared to the annual pension cost of $1,460,180 under GASB No. 27 reported at June 30, 2014. Under GASB No. 68, the pension expense is measured as the difference between the net pension liabilities between two reporting periods.

- The beginning *Deferred Inflows of Resources* was not available for the implementation of GASB Nos. 68 and 71. The budgeted pension contribution for fiscal 2014-2015 of $6,830,373 will be recognized as *Deferred Outflow of Resources* and $893,950 will be recognized as *Deferred Inflow of Resources*.

	Current Accounting Standards (GASB 27)	New Accounting Standards (GASB 68 & 71)	Impact of New Standards
Assets	$ 153,067,335	$ 153,067,335	No change
Deferred Outflow of Resources	-	1,460,180	An increase in estimated pension contribution in Fiscal Year 2014-2015
Liabilities	102,156,206	206,000,918	An increase of $103,844,712 (Net Pension Liability)
Deferred Inflow of Resources	-	-	No change
Net Position	50,911,129	(51,473,403)	A net decrease of ($102,384,532) to Net Position
Expenses	1,460,180	4,617,612	An increase of $3,157,432 ($6,077,792 - $1,460,180, contribution minus the pension expense
Adjustments to Restated Beginning Net Position	(102,384,532)	-	A decrease of $102,384,532 to beginning Net Position

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continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Restatement of Beginning Position and Allocation of Pension Expense Among Municipality Funds

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be $102,384,532 for governmental activities; business-type activities funds was not affected because employees do not participates in the retirement systems.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. During the current fiscal year, the Municipality implemented the second pronouncement issued, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement establishes accounting and financial reporting for pensions provided to the employees of state and local government employers through pension plans that are administered through trusts that have the following characteristics:

- contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;

- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;

- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For the purpose of applying the requirements of GASBS No, 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing Defined Benefit Pension Plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 17).

For purposes of measuring the Net Pension Liability and Deferred Outflows/Inflows of Resources related to pensions, and pension expense, information about the fiduciary net position of the ERS and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by Commonwealth of Puerto Rico. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

11) *Landfill*

As per requirements of State and Federal laws and regulations the Municipality should be obligated to place a final cover on its closed landfill and perform certain maintenance and monitoring functions at the landfill site for the next thirty years (See Note 11). The estimated liability for municipal solid waste landfill post-closure care costs (including monitoring and maintenance) include an estimate of all post-closure care costs to be incurred in the Municipality's closed solid waste landfill, and is recorded as a liability in the accompanying GWFS, *Statement of Net Position*, under the provisions of GASB Accounting Standards Codification Section L 10, *Landfill Closure and Post-Closure Care Costs.*

The estimates post-closing costs are made using current costs. The liability should be adjusted annually to reflect the effects of inflation, advances in technology, changes in regulations or similar changes.

At the governmental funds' level, landfill post-closure care costs do not constitute an outflow of current financial resources and should not result in the recognition of a governmental fund liability or expenditures. Post-closure care costs are recorded in the *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds* as expenditures in the accounting period in which the payments are made.

12) *Proprietary Funds Operating and Nonoperating Revenues and Expenses*

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Municipality's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

13) *Net Position/Fund Balance*

A) *Net Position*

Net position represent the difference between assets, plus deferred outflows of resources less liabilities, and deferred inflows of resources is "Net Position" on the GWFS.

The GWFS and Proprietary Funds Financial Statements utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For Governmental Activities, Net Investment in Capital Assets is comprised of the following:

	Governmental Activities
Capital Assets, Net of Accumulated Depreciation	$124,729,004
Outstanding Balance on Related Debt	(63,276,000)
Unspent Capital Debt Proceeds	14,466,232
Net Investment in Capital Assets	$ 75,919,236

- *Restricted Net Position* – These result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of net position which do not meet the definition of the two preceding categories. Unrestricted net position often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints on resources that are imposed by management, but can be removed or modified.

Net Position Flow Assumption

Sometimes the Municipality will fund outlays for a particular purpose from both restricted (e.g., 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 GWFS, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Municipality's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

- *Nonspendable* – amounts that cannot be spend because they are either (1) not spendable in form; or (2) legally or contractually required to be maintained intact.

- *Restricted* – amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Committed* – amounts that can only be used for specific purposes determined by formal action of the Municipality's highest level of decision-making authority (Municipal Legislature) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

- *Assigned* – amounts that are constrained by the Municipality's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.

- *Unassigned* – the residual classification for the Municipality's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Flow Assumption

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

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a resolution prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this resolution before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASB 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 10% of budgeted expenditures. The Municipality considers a balance of less than 5% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 15% as excessive. An amount in excess of 15% is to be considered for reservation to accumulate funding for purchase of machinery and equipment, for capital projects, and/or to reduce the tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from Unassigned General Fund Balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital assets purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2015.

Prioritization of Fund Balance Use

In circumstances where expenditure is for a purpose that quantities are available in multiple fund balance classifications, the order in which the resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

C) Components of Fund Balance

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	$ -	$ -	$ -	$ 165,000	$ -	$ 165,000
Restricted For:						
Improvement of Streets and Sidewalks	-	-	-	2,949,944	-	2,949,944
Improvement and Construction of Facilities	-	-	-	8,722,943	8,118	8,731,061
Capital Outlay	-	-	-	1,213,178	-	1,213,178
Improvement of Water and Sewer System	-	-	-	3,828,124	-	3,828,124
Improvement to Landfill	-	-	-	412,524	-	412,524
Welfare	-	-	-	-	131,903	131,903
Debt Repayment	-	-	2,168,200	-	-	2,168,200
General Government	782,598	-	-	4,589,552	241,125	5,613,275
Total Restricted	**782,598**	**-**	**2,168,200**	**21,716,265**	**381,146**	**25,048,209**
Committed To:						
Welfare	-	-	-	-	16,880	16,880
Total Committed	**-**	**-**	**-**	**-**	**16,880**	**16,880**
Assigned	**-**	**-**	**-**	**-**	**-**	**-**
Unassigned (Deficit)	**(6,687,243)**	**-**	**-**	**-**	**(24,950)**	**(6,712,193)**
Total Fund Balances	**$ (5,904,645)**	**$ -**	**$ 2,168,200**	**$ 21,881,265**	**$ 373,076**	**$ 18,517,896**

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2015 amounted to $738,578, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2015 amounted to $258,722.

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

G. Cash Flows

Statement of Cash Flows is presented for proprietary fund type. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. As of June 30, 2015, there are not investments or cash equivalents reported, only cash in commercial banks.

H. Use of Estimates

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

I. Reclassifications

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

J. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement address accounting and financial reporting issues related to *fair value* measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or 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 should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) or the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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

This Statement is effective for fiscal years beginning after June 15, 2016 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY 2015-2016), and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement establishes an additional presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends Statement No. 14, *The Financial Reporting Entity*, paragraph 53, and *Implementation Guide No. 2015-1*, Question 4.30.1.

A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provision is paragraphs 21-37 of Statement 14, as amended.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 *(FY 2015-2016)*. Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality has not yet determined the effect these statements will have on the Municipality's financial statements.

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2015 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of $8.2 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Municipality follows the practice of pooling cash. At June 30, 2015, the pool cash account in interest bearing commercial banks accounts had a balance of $8.3 million of which $7.0 million in the General Fund, $211,217 in the Head Start Fund, $313,171 in the Capital Activities Fund, and $550,219 in Other Governmental Funds. The balance in the pooled cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally deposit in accounts with commercial banks. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Under the laws and regulations of the Commonwealth, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the Federal Deposit Insurance Corporation (FDIC) coverage. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of the Treasury, but not in the Municipality's name.

Cash with fiscal agent in the Debt Service Fund consists of property tax collections and sales and usage taxes amounting to $8,221,968 that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent in General Fund consist of $195,162, in $7.3 million in the Debt Service Fund, in Capital Activities Fund consist principally of $14.5 million of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets, and $8,118 in the Other Governmental Fund. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions. Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2015:

continue

3. CASH AND INVESTMENTS – continuation

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash equivalents of $8.3 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2015. 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, 2015.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2015, the Municipality has balances deposited in commercial banks amounting to $8.3 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $21.0 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. During the past years, the GDB's liquidity and financial condition was adversely affected by, among other factors, a significant increase in credit spread for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital market access, and significant reduction of liquidity in the local Puerto Rico capital market. Accordingly, the GDB's credit rating was downgraded and maintained in "Credit Watch" with negative implications. These factors have resulted in significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low in commercial banks, but for GDB it's considered high.

Interest Rate Risk

This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less, and (3) keeping most of its banks deposits in certificates of deposit and in interest bearing accounts generating interest at prevailing market rates. Therefore, at June 30, 2015, the interest risk associated with the Municipality's cash and cash equivalent 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, 2015.

continue

4. ACCOUNTS AND NOTE RECEIVABLE

Federal Grants

The due from federal grants of the Other Governmental Funds for the fiscal year ended June 30, 2015 corresponds to $23,093 from the Family Violence Prevention and Service, $105,263 from Crime Victim Assistance, $172,869 from HUD Programs.

Sales and Usage Taxes

Municipality has sales and usage taxes receivable of $298,831, in the general fund that represents filed tax returns that were uncollected as of June 30, 2015, net of allowance for uncollectible accounts.

Loan Receivable – Component Unit

The Municipality has made a loan to Mi Arecibo, Inc. in the amount of $165,000. This amount will be paid from the excess of 25% of annual earnings of the corporation.

Note Receivable

On August 2005, the Municipal Legislature authorized the Mayor to sell the Puerto Rico Distiller for a sale price of $3,000,000. Of this amount the buyer are paid $2,090,850. The remaining balance as of June 30, 2015, $909,150 are claimed by judicial trial. A reserve for uncollectable receivable was made by the Municipality for the total amount of the receivable. The Municipality Legal Division is in charge to collect the amount due.

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be earned in the current period as follows:

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continue

5. UNEARNED REVENUES – continuation

Governmental Funds:	
Volume of Business Taxes	$ 5,662,290
Federal Grants:	
Child and Adult Care Food Program	162,537
Family Self Sufficiency	17,872
Special Programs for the Aging - Title III	110
Child Care and Development Block Grant Program	20,831
Emergency Shelter Grant Program	2,891
Urban Development Action Grant Program	2,998
Crime Victim Assistance	11,628
Promoting Safe and Stable Families	25,252
Home Investment Partnerships Program	5,651
Family Violence Prevention and Services	14,452
ARRA - Child Care and Development Block Grant Program	2,292
Subtotal Federal Grants	266,514
Total Unearned Revenues	$ 5,928,804

6. DEFERRED OUTFLOWS / 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. The Municipality has one item that are reportable on the Government-wide Statement of Net Position that is relates to outflows from changes in the net pension liability (Note 18); the inflow of resources related to the benefit payments are reported as Advances from Grantors and Third Parties (Note 9).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds *Balance Sheet* report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Activities:	
Deferred Outflows of Resources	
Contributions to ERS	$ 6,830,373
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 893,950

Governmental Funds:	
Christmas Bonus - Commonwealth	$ 92,213
Property Taxes - MRCC	1,176,805
Federal Grants:	
Head Start Program	70,599
Community Development Block Grant	25,238
Total Deferred Inflows of Resoruces	$ 1,364,855

continue

7. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

During the course of operations, numerous transactions occur between the Municipality's funds for goods provided and services rendered and for the reimbursement of expenditures. Related interfund receivables and payables are classified as "Due from Other Funds" and "Due to Other Funds" on the *Balance Sheet* and *Statement of Net Position* and will be settled within one year. Due to/from Other Funds at June 30, 2015 are summarized as follows:

	Due From					
Due to	**General Fund**	**Head Start Fund**	**Debt Service Fund**	**Capital Activities Fund**	**Other Governmental Funds**	**Total Due To**
General Fund	$ -	$ 151,806	$ -	$ 7,807,602	$ 63,900	$ 8,023,308
Head Start Fund	-	-	-	333,000	-	333,000
Debt Service Fund	-	-	-	-	-	-
Capital Activities Fund	-	-	-	-	-	-
Other Governmental Funds	413,985	-	-	96,335	-	510,320
Total Due From	**$ 413,985**	**$ 151,806**	**$ -**	**$ 8,236,937**	**$ 63,900**	**$ 8,866,628**

B. Interfund Transfers

During the course of the fiscal year, transactions occur between the Municipality's funds for operating subsidies. Related interfund receipts and disbursements are classified as "Transfers In" and "Transfers Out" on the *Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Net Position*. The transfers are routine and consistent with the activities of the funds. Principality, transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

	Transfers Out					
Transfers In	**General Fund**	**Head Start Fund**	**Debt Service Fund**	**Capital Activities Fund**	**Other Governmental Funds**	**Total Transfer In**
General Fund	$ -	$ -	$ 1,550,000	$ 3,139,675	$ 21,619	$ 4,711,294
Head Start Fund	1	-	-	-	-	1
Debt Service Fund	1,222,294	-	-	-	-	1,222,294
Capital Activities Fund	1,183,142	-	-	-	-	1,183,142
Other Governmental Funds	38,381	-	-	-	-	38,381
Subtotal	2,443,816	-	1,550,000	3,139,675	21,619	7,155,110
Total Transfer Out	**$ 2,443,816**	**$ -**	**$ 1,550,000**	**$ 3,139,675**	**$ 21,619**	**$ 7,155,110**

Transfer from General Fund to Debt Service Fund are for payment of principal and interest. Transfer from Capital Activities Fund and Other Governmental Funds are for equity transfers other purposes.

continue

8. DUE FROM/TO OTHER GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2015 corresponds to $324,386 from Puerto Rico Treasury Department for the Christmas Bonus and $273,552 from Municipal Revenue Collection Center for excess of fund retentions.

As of June 30, 2015, balance due to other governmental units of the General Fund for services rendered to the Municipality, consists of the following:

	AMOUNT
Commonwealth of Puerto Rico Employees Association	$ 33,926
Total Due to Governmental Units	$ 33,926

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continue

9. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2015 was as follows:

DESCRIPTION	BALANCE JUNE 30, 2014	RECLASSIFICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2015
Governmental Activities:					
Non-Depreciable Capital Assets:					
Construction in Progress	$ 2,865,168	$ (1,062,270)	$ 3,023,077	$ -	$ 4,825,975
Works of Art	157,261	-	-	-	157,261
Land	57,595,654	-	-	-	57,595,654
Total Non-Depreciable Capital Assets	60,618,083	(1,062,270)	3,023,077	-	62,578,890
Depreciable Capital Assets:					
Buildings	52,227,448	824,188	210,000	-	53,261,636
Building Improvements	13,214,591	188,082	888,479	-	14,291,152
Infrastructure	17,016,693	50,000	-	-	17,066,693
Infrastructure Improvements	14,150,765	-	49,887	-	14,200,652
Equipment	5,609,881	-	66,911	(195,168)	5,481,624
Furnitures	1,786,045	-	-	-	1,786,045
Computers	997,437	-	-	-	997,437
Motor Vehicles	10,441,020	-	291,775	(156,065)	10,576,730
Total Depreciable Capital Assets	115,443,880	1,062,270	1,507,052	(351,233)	117,661,969
Less Accumulated Depreciation:					
Buildings	(16,815,143)	-	(1,328,367)	-	(18,143,510)
Building Improvements	(2,687,488)	-	(346,079)	-	(3,033,567)
Infrastructure	(11,419,465)	-	(165,785)	-	(11,585,250)
Infrastructure Improvements	(3,976,239)	-	(757,304)	-	(4,733,543)
Equipment	(5,280,090)	-	(175,746)	195,168	(5,260,668)
Furnitures	(1,780,245)	-	(3,826)	-	(1,784,071)
Computers	(995,589)	-	(1,848)	-	(997,437)
Motor Vehicles	(9,732,354)	-	(397,520)	156,065	(9,973,809)
Works of Art	-	-	-	-	-
Total Accumulated Depreciation	(52,686,613)	-	(3,176,475)	351,233	(55,511,855)
Total Depreciable Capital Assets (Net)	62,757,267	1,062,270	(1,669,423)	-	62,150,114
CAPITAL ASSETS, NET	$ 123,375,350	$ -	$ 1,353,654	$ -	$ 124,729,004

continue

10. CAPITAL ASSETS – continuation

Depreciation expenses were charged to governmental functions/programs as follows:

	AMOUNT
Governmental Activities:	
Mayor and Municipal Legislature	$ 336
General Government	602,654
Public Safety	218,774
Public Works	938,459
Culture and Recreation	828,947
Human Services and Welfare	16,394
Public Instruction	4,730
Urban Development	566,182
Total Depreciation Expenses	$ 3,176,476

11. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 11).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2015:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1994	$ 400,000	2019	4.87%	$ 112,000
General Construction	1995	14,975,000	2020	4.70% to 6.63%	6,490,000
Operational Expenditures	1998	900,000	2023	4.75%	429,000
General Construction	1999	7,365,000	2024	2.70% to 5.60%	4,535,000
General Construction	2002	5,030,000	2026	2.70% to 5.60%	3,495,000
Operational Expenditures	2003	605,000	2028	1.53% to 6.00%	440,000
General Construction	2004	1,610,000	2029	1.53% to 6.60%	1,145,000
General Construction	2004	410,000	2019	3.28% to 4.80%	165,000
Operational Expenditures	2006	1,056,000	2016	1.53% to 7.00%	272,000
General Construction	2008	1,015,000	2033	1.53% to 7.50%	915,000
General Construction	2009	4,020,000	2033	4.75% to 7.50%	3,585,000
Operational Expenditures	2009	805,000	2024	4.75% to 7.50%	635,000
General Construction	2010	1,355,000	2029	6.00% to 7.50%	1,175,000
Acquisition of Capital Assets	2011	825,000	2017	6.00% to 7.50%	405,000
Operational Expenditures	2012	5,775,000	2018	6.00% to 7.50%	3,655,000
Operational Expenditures	2012	505,000	2037	6.00% to 7.50%	490,000
Operational Expenditures	2014	3,935,000	2033	6.00% to 7.50%	3,875,000
General Construction	2014	4,225,000	2033	6.00% to 7.50%	4,125,000
General Construction	2015	5,685,000	2035	7.00% to 8.00%	5,685,000
Acquisition of Capital Assets	2015	1,360,000	2022	7.00% to 8.00%	1,360,000
Acquisition of Capital Assets	2015	209,000	2022	3.50%	209,000
Total General Obligations Bonds					**43,197,000**

continue

continue

10. NONCURRENT LIABILITIES – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Special Obligations Bonds:					
General Revenues:					
Operational Expenditures	2002	$ 10,545,000	2026	1.28% to 8.00%	$ 7,060,000
Operational Expenditures	2003	4,235,000	2028	6.00%	2,940,000
Subtotal					**10,000,000**
Sales & Usage Taxes:					
Acquisition of Capital Assets	2009	1,845,000	2034	5.00% to 7.50%	1,690,000
Operational Expenditures	2010	2,095,000	2035	6.00% to 7.50%	1,965,000
Acquisition of Capital Assets	2010	4,140,000	2035	6.50% to 7.00%	3,850,000
Operational Expenditures	2010	1,228,000	2017	6.00% to 7.50%	604,000
Operational Expenditures	2011	2,065,000	2036	6.00% to 7.50%	1,970,000
Subtotal					**10,079,000**
Total Special Obligations Bonds					**20,079,000**
Total General and Special Obligations Bonds					**$ 63,276,000**

During the fiscal year ended June 30, 2015 the Municipality issued general obligation bonds payable in the amount of $1,360,000 for the acquisition of equipment. Principal and interest on the general obligation bonds are appropriated and paid from resources accumulated in the Debt Service Fund.

In addition, during the fiscal year ended June 30, 2015 the Municipality issued general obligation bonds payable in the amount of $5,685,000 for capital improvements. Principal and interest on the general obligation bonds are appropriated and paid from resources accumulated in the Debt Service Fund.

Also, during the fiscal year ended June 30, 2015 the Municipality issued USDA Rural Development loan payable in the amount of $209,000 for ambulance acquisition. Principal and interest on the loan are appropriated and paid from resources accumulated in the Debt Service Fund.

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2015, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

continue

10. NONCURRENT LIABILITIES – continuation

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

C. Net Pension Liability

The **Municipality** implemented of the GASB No. 68 that represent a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position with a the recognition of a net pension liability. The total prior period adjustment on the government-wide basis is estimated to be $74,281,883 for governmental activities; business-type activities funds was not affected because employees do not participates in the retirement systems. As of June 30, 2015 the amount of net pension liability amounted to $111,709,942 for the proportional share in the cost-sharing multi-employers pension plan (see Note 17).

D. Other Noncurrent Liabilities

Following are the other noncurrent liabilities as of June 30, 2015 and corresponding change during the fiscal year:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Landfill Obligation	$ 18,057,274	-	(213,679)	17,843,595	-	17,843,595
Law Number 42-MRCC	1,034,689	$ -	(31,144)	$ 1,003,545	$ 33,102	$ 970,443
Law Number 146-MRCC	789,274	-	(43,843)	745,431	43,843	701,588
PR Water and Sewer Authority	2,164,142	$ 1,309,295	(399,772)	$ 3,073,665	$ 80,000	$ 2,993,665
PR Treasury Department	610,361	49,410	(65,977)	593,794	175,937	417,857
Department of Labor	343,430	-	-	343,430	84,984	258,446
Retirement System	3,542,651	2,217,424	(1,276,896)	4,483,179	3,494,320	988,859
Christmas Bonus	648,772	368,958	(648,772)	368,958	368,958	-
Claims and Judgments	23,500	601,033	(23,500)	601,033	377,673	223,360
Compensated Absences	4,814,678	-	(182,664)	4,632,014	785,522	3,846,492
TOTAL	**$ 32,028,771**	**$ 4,546,120**	**$ (2,886,247)**	**$ 33,688,644**	**$ 5,444,339**	**$ 28,244,305**

Borrowing from MRCC

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original amount of debt is $1,096,202 to be paid during 25 years plus annual interest of 6.22%.

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The original amount of debt is $1,284,410 to be paid during 30 years plus annual interest of 6.1875%.

continue

10. NONCURRENT LIABILITIES – continuation

Landfill Obligation

The Municipality is the current owner of a municipal solid waste landfill consisting of approximately 100 acres, and accounts for certain costs associated with its landfill in accordance with GASB Accounting Standards Codification, Section L10, *Landfill Closure and Post-Closure Care Costs*. Accordingly, the Municipality is required to recognize a liability equal to the estimated total current cost of post-closure care for its landfill. Post-closure care of the Municipality's landfill after its closure is mandated by state and federal laws and consists of various maintenance and monitoring functions at the landfill site. The estimated liability for municipal solid waste landfill closure and post-closure care costs (including monitoring and maintenance) is recorded as a liability in the accompanying GWFS, *Statement of Net Position.*

The estimated total current cost of the landfill closure and post-closure care costs expense during the fiscal year was $419,258, based on the 63% usage (filled) of the landfill. It is estimated that an additional $10,707,728 will be recognized between the date of the Statement of Net Position and the expected filled capacity (2032). The estimated total future closure and post-closure care costs ($28,991,250) is based on the amount that would be paid if all equipment, facilities and services required to close, monitor, and maintain the landfill were acquired as of June 30, 2015. However, due to the nature of closure and post-closure care of municipal landfills, the estimated future costs are subject to annual revision due to changes in applicable regulations, market prices and conditions, and other unforeseeable events.

The Municipality is required to provide financial assurance for the post-closure care activities in accordance with federal regulations, and should identified current and future resources to cover costs relating to the closure and post-closure care costs of the landfill as of June 30, 2015. The Municipality hasn't demonstrates financial assurance to comply with such requirements.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2015 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2015.

Department of Labor and Human Resources

On June 30, 2014, the Municipality entered into a repayment agreement with the Department of Labor and Human Resources of the Commonwealth of Puerto Rico to repay the unemployment benefit as of June 30, 2014. The repayment agreement is payable in monthly aggregate installments of principals and interest at 8.00% of $2,238.08. The original amount of debt is $80,570 under the agreement to be paid during 3 years.

Claims and Judgments

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

continue

10. NONCURRENT LIABILITIES – continuation

E. Changes in Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2015:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 39,712,000	$ 7,254,000	$ (3,769,000)	$ 43,197,000	$ 3,328,000	$ 39,869,000
Special Obligations Bonds	20,978,000	-	(899,000)	20,079,000	972,000	19,107,000
Net Pension Liability	103,844,712	10,882,645	(3,017,415)	111,709,942	-	111,709,942
Other Obligations	32,028,771	4,546,120	(2,886,247)	33,688,644	5,444,339	28,244,305
TOTAL	**$196,563,483**	**$ 22,682,765**	**$ (10,571,662)**	**$208,674,586**	**$ 9,744,339**	**$198,930,247**

F. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the noncurrent liabilities outstanding as of June 30, 2015 are as follows:

	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations		TOTAL	
YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
Governmental Funds:								
2016	$ 3,328,000	$ 2,558,307	$ 972,000	$ 1,441,701	$ 5,444,339	$ 79,705	$ 9,744,339	$ 4,079,713
2017	3,592,000	2,459,408	1,041,000	1,366,876	79,025	76,527	4,712,025	3,902,811
2018	3,702,000	2,294,643	1,126,000	1,286,251	81,235	73,219	4,909,235	3,654,113
2019	3,827,000	2,056,866	970,000	1,208,289	83,584	70,320	4,880,584	3,335,475
2020	2,986,000	1,868,911	1,035,000	1,133,714	86,081	66,725	4,107,081	3,069,350
2021-2025	11,077,000	6,928,112	6,510,000	4,331,484	473,709	273,853	18,060,709	11,533,449
2026-2030	7,025,000	4,058,859	4,195,000	2,121,693	564,361	155,758	11,784,361	6,336,310
2031-2035	6,380,000	1,602,599	3,390,000	961,453	303,935	23,772	10,073,935	2,587,824
2036-2040	1,280,000	224,152	840,000	43,413	-	-	2,120,000	267,565
Unmatured	-	-	-	-	138,282,216	-	138,282,216	-
TOTAL	**$ 43,197,000**	**$ 24,051,857**	**$ 20,079,000**	**$ 13,894,874**	**$ 145,398,485**	**$ 819,879**	**$208,674,485**	**$ 38,766,610**

11. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico (MRCC) to the Municipality (See Note 12).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 10). Payments are made to the GDB from such accumulated funds by the MRCC.

continue

11. DEBT RETIREMENT – continuation

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

12. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of $15,000 (at 1957 market price). The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution. Real property taxes are assessed by the MRCC as January 1st of each year.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year.

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC 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.

continue

12. PROPERTY TAXES – continuation

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-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination.

The tax rate for fiscal year 2015 is 10.33% for real property and 8.33% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 6.00% and 4.00%, respectively, belongs to the Municipality. Taxpayers pay 10.13% for real property and 8.13% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.50% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 12). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first $150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than $35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with an annual net sales volume of less than $150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

continue

13. VOLUME OF BUSINESS TAXES

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of $3.0 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

a. 1.50% for financial institutions and savings and loan associations.

b. 0.40% for all other organizations.

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2015. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as deferred revenues in the General Fund.

14. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;

b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% 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.

Sales and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2015, but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

continue

14. SALES AND USAGE TAXES – continuation

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

15. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project.

Any construction project should paid the construction excise taxes as follow:

a. 2.00% of the total cost of the project for any residential construction; exception: 1.00% for unifamiliar construction by the owner that not is part of a major project. Also, unifamiliar construction with a cost of $15,000 or less are exempt of tax;

b. 4.00% of the total cost of the project for any commercial and industrial construction, pavement, repairs, demolitions, streets, highways, bridges, land movement and similar projects;

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

continue

16. INTERGOVERNMENTAL REVENUES, FEDERAL AND STATE GRANTS AND SUBSIDIES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, “in lieu of tax” payments from the Quasi-public Corporation, Puerto Rico Electric Power Authority (PREPA), and financial assistance received from state governments. Intergovernmental revenues are accounted for through the General Fund because they are not restricted for specific purpose.

Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements. Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the Special Revenue and the Capital Project Funds. Federal Financial Awards are recorded in the General Fund, Special Revenue Fund and Capital Projects Funds.

17. PENSION PLAN

Description of the Plan

As further described in Note 2 D 10), the Municipality implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

Employees of the Municipality participate in the Employee’s Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 215 participating employers (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements prior to Act No. 3, enacted on April 4, 2013, the annual benefit payments and administrative expenses paid by the system were significantly larger than the member and employer contributions made to the system. Thus investment income must have been used to cover this negative cash flow and assets were projected to become exhausted by the end of this decade. Act No. 3 and Act No. 32 of 2014 (as amended by Act No. 244 of 2014) provided for significant pension reforms and additional contributions to the ERS to counter the imminent expected asset exhaustion.

Certain provisions are different for the three groups of members who entered the ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)

continue

17. PENSION PLANS – continuation

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Define Contribution Hybrid Program. The assets of the Define Benefit Program, the Define Contribution Program and the Define Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Define Benefit Program.

As of June 30, 2014, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $30,220 million, representing a 3.10% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken.

The estimate of when the ERS's net position will become a deficit and when its assets would be exhausted is based on significant assumptions, including the rate of return on investments, the amount and timing of collections from the Commonwealth for the member, employer contributions and the employer additional contribution (Act No. 32), which as discussed below, was estimated in $120.0 million for fiscal year 2014 and $352.0 million annually through fiscal year 2032, as well as the estimated participant benefits and the ERS's administrative expenses to be paid each year.

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions (Additional Uniform Contribution) of $120.0 million from the Commonwealth General Fund, public corporations and municipalities beginning in fiscal year 2014 and from all employers $352.0 million annually through fiscal year 2032. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. The 2014 budgetary appropriation for such additional contribution of approximately $120.0 million was included in the Commonwealth, public corporations and municipalities for the fiscal year 2014. However, as a result of budgetary constraints at the present time only $14.9 million was paid by the Commonwealth and 20.5 million paid by public corporations and municipalities during fiscal year 2014. The additional contribution for the fiscal year 2015 was $27.0 million paid by the Commonwealth and $27.0 million paid by public corporations and municipalities.

The projected Additional Uniform Contribution for fiscal year 2016 and subsequent years has increased to approximately $352.0 million (of which approximately $216.0 million corresponds to the Commonwealth's central government, to be funded from the General Fund and the remaining portion corresponds to the participating public corporations and municipalities). The ERS's actuaries are currently updating the projected Additional Uniform Contribution for fiscal year 2017 and beyond.

If the Commonwealth's financial condition does not improve as a result of fiscal and budgetary measures it is taking, its ability to repay its obligations, including its regular employer contributions to the ERS and its additional contribution as provided by Act No. 32, for the upcoming years, may continue to be adversely affected, and could also affect the payment of benefits and the repayment of the ERS's bond payable.

continue

17. PENSION PLANS – continuation

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the System 2000 to Chapter 5 of the ERS.

Act No. 3 is a dynamic 50-year plan that is designed to provide enough cash for ERS to be able to make full Basic System Benefit payments as they come due, to pay the new lower System Administered Benefits, and to pay debt service on the pension obligation. The reforms enacted through Act No. 3, by design, is a very long term plan, and constant monitoring will be needed to make sure the ERS stays on track. Actual experience may turn out better or worse than expected, thus future adjustments may be needed. Receipt of the Additional Uniform Contribution under Act No. 32 (as amended by Act No. 244) is critical to the ERS's ability to make payments as they come due.

Follow are the principal amendment of Act No. 447 by Act No. 3:

Chapter 3 of the Act No. 447, established the following date of retirement:

(a) General Rule – The first day of the month that coincides with or is subsequent to the date that the participant of the program reaches the age of sixty (60), except as provided in clause (b) of this subsection.

(b) Public Officers in High-Risk Positions- In the case of Public Officers in High-Risk Positions, it shall mean the first day of the month that coincides with or is subsequent to the date that the Participant reaches the age of fifty-five (55) years. (Public Officers in High-Risk Positions shall mean the Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.)

(c) Effectiveness of these provisions: the normal date of retirement established in subsections (a) and (b) of this definition shall be in force until June 30, 2013.

Retirement age for participants who joined public service after June 30, 2013 – The retirement age shall be 67 years, except in the case of Public Officers in High-Risk Positions, for whom it shall be fifty eight (58) years.

Participant of the Program

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

continue

17. PENSION PLANS – continuation

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

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

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

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

Annuity for Years of Service

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

continue

17. PENSION PLAN – continuation

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

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

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

Benefits Provided

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

Merit Annuity – Plan members are eligible for merit annuity with a minimum of 30 years or more of credited service. The annuity for which the plan member is eligible is limited to a minimum of 65% and a maximum of 75% of the average compensation. As a result of the enactment of Act No. 3 of April 4, 2013, effective July 1, 2013, merit annuities will no longer be available to participants who joined the ERS after April 1, 1990.

Deferred Retirement Annuity – A participating employee who ceases to be an employee of the Commonwealth after having accumulated a minimum of 10 years of credited service qualifies for retirement benefits provided his/her contributions to the ERS are left within the ERS until attainment of 58 years of age.

The amount of the superannuation retirement annuity of mayors who are participants of the System shall be computed on the basis of the highest salary he/she may have received while discharging his/her government duties in the following manner:

(1) For services performed as mayor, five percent (5%) of said salary for each year of creditable service up to a maximum of ten (10) years or fifty percent (50%), plus

continue

17. PENSION PLAN – continuation

(2) For other services performed not included in the above computation, one and one half percent (1.50%) of said salary multiplied by the number of years of such other creditable services up to twenty (20) years, or two percent (2%) of said salary multiplied by the number of years of such other creditable services in excess of twenty (20) years.

The maximum superannuation retirement annuity to be granted under this subsection shall be ninety percent (90%) of the highest salary that the mayor may have received. The payments of the retirement annuity shall begin on and after the date of separation from service, but never before the mayor has attained fifty (50) years of age.

Retirement shall be optional for any participant of the System in active service who shall have completed at least thirty (30) years of creditable service. Said participant shall be entitled to receive the Merit Annuity for thirty (30) years or more of service in accordance with subsections (b) and (c) of this section thereof. Participants of the System under the Coordinating Plan and receiving Social Security benefits, who have not attained sixty-five (65) years of age, shall receive a merit annuity to be computed as provided for hereinafter:

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

As per Act No. 447 the following provisions shall apply to employees who participate in the System that (i) began to work before January 1, 2000, (ii) as of June 30, 2013, are not participants of the Retirement Savings Account Program established in Chapter 3 of this Act and (iii) as of June 30, 2013, do not meet the requirements of years of service and age to retire that are required in Chapter 2 of this Act:

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

   (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years. of age and has completed at least 10 years of service

   (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

   (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

continue

17. PENSION PLAN – continuation

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

(i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

(ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

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

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

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

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

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

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

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

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

continue

17. PENSION PLAN – continuation

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

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

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

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

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

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

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

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

Funding Policy

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

<u>Contributions of Participants of Defined Benefit Program</u>

Contribution requirements are established by law and are as follows:

Coordinated Plan – Prior to July 1, 2013 on the coordinated plan, the participating employee contributes 5.775% for the first $6,600 of salary plus 8.275% for the excess over $6,600. For fiscal 2013-2014 the contribution was 7.00% for the first $6,600 of salary plus 10.00% for the excess over $6,600. For fiscal 2014-2015 the contribution was 8.50% for the first $6,600 of salary plus 10.00% for the excess over $6,600. After July 1, 2015 the contribution was 10.00% of salary. By the time the employee reaches 65 years old and begins to receive social security benefits, the pension benefits are reduced by the following:

- $165 per month if retired with 55 years of age and 30 years of credited service.
- $110 per month if retired with less than 55 years of age and 30 years of credited service.
- All other between $82 and $100 per month.
- Disability annuities under the coordinated plan are also adjusted at age 65 and in some cases can be reduced over $165 per month.

continue

17. PENSION PLAN – continuation

Non-Coordinated Plan (Supplementation Plan) – Prior to July 1, 2013 on the non-coordinated plan, the participating employee contributes 8.275% of the monthly salary and does not have any change on the pension benefits upon receiving social security benefits. After July 1, 2015 the contribution was 10.00% of salary.

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

(1) Effective July 1, 2013, shall contribute seven percent (7%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(2) Effective July 1, 2014, shall contribute eight point five percent (8.5%) of their monthly salaries up to five-hundred fifty dollars ($550) and ten percent (10%) of their monthly salaries in excess of said amount.

(3) Effective July 1, 2015, shall contribute ten percent (10%) of their full monthly salaries.

The participants of the Program under subsections (a) and (b) of this Section may voluntarily contribute to their account an amount in addition to the one established here. These contributions shall be credited to the contribution account of each participant of the Hybrid Program. The Administrator shall establish the way in which the participants may make additional contributions.

(c) Mandatory Contribution for the Purchase of Disability Insurance – Every participant of the Hybrid Program shall mandatorily contribute to the disability insurance established in Section 5-112 of Chapter 5 of Act No. 447, for which he/she shall have to contribute such sums, fixed in dollars or a percent of the salary, that the Administrator, with the approval of the Board, determines that are needed to provide the disability benefit, provided the contribution required by the Administrator is equal to or less than point twenty five percent (0.25%) of the participant's salary. The contributions made pursuant to this subsection may be credited against and will reduce the contributions that the participant of the Program is bound to pay to the Commonwealth of Puerto Rico Employees Association as provided in Section 8 of Act No. 133 of June 28, 1966, as amended. The contributions made under this subsection shall not be credited to the participant's account.

Employer Contributions to the System (ERS and Hybrid Program)

On July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

continue

17. PENSION PLAN – continuation

Every employer, beginning on July 1, 2013, shall mandatorily contribute to the System the following:

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant
July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

As mentioned above, the **Municipality** is required to an Additional Uniform Contribution as per Act No. 32.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

Upon death of any person who is rendering services and who had contributions accrued in the Hybrid Program, these contributions shall be reimbursed to the person or persons the participant had designated through written order duly acknowledged and submitted to the Administrator, or to his/her heirs, in the event such designation had not been made. The reimbursement shall be equal to the sum of the contributions and the investment yields up to the date of the demise of the participant. The Administrator shall collect from the contributions any debt the participant may have with the System.

Death of a Pensioner

If a pensioner dies without having consumed all of his/her pension payment contributions, his/her designated beneficiaries or, absent such designation, his/her heirs, shall continue receiving the monthly pension payments until the contributions of the participant are completely consumed.

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is 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 distributed to the participant by the Administrator 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.

continue

17. PENSION PLAN – continuation

Beginning on June 30, 2013, no disability pensions shall be awarded pursuant to Sections 2-107 thru 2-111 of Act No. 447.

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, 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 Insurance Commissioner 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 person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to $28,076.

Additional Benefits Program

The Additional Benefits Program is established for pensioners of the ERS; said benefits are separate and shall not form part of the pension or annuity.

Except for those persons who retire under Chapter 5 of Act No. 447 of May 15, 1951, as amended, every person who was receiving a pension or benefit under Act No. 447, or the pension plans superseded by it, or any other law administered by the Administrator of the ERS, excluding any person who is receiving a pension or benefit under Act No. 12 of October 19, 1954, as amended, shall be entitled to receive the following benefits:

(a) A Medication Bonus equal to one hundred ($100), which shall be paid no later than July 15 of each year;

(b) A Christmas Bonus equal to two hundred dollars ($200), which shall be paid no later than December 20 of each year; and

(c) A Government contribution for health benefits for employees covered by health benefit plans under Act No. 95 of June 29, 1963, as amended, of one hundred dollars ($100) monthly for pensioners of the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, but it shall not exceed the total amount of the corresponding fee to be paid to any employee.

In order to fund the Additional Benefits Program and the ERS, beginning on fiscal year 2013-2014 and every subsequent fiscal year, the ERS shall receive a contribution equal to two thousand dollars ($2,000) as of July 1 of every year for every pensioner of the ERS who began to work in the Public Service on or before of December 31, 1999.

The Administration of the ERS shall determine the total amount of the special additional contribution provided in the above paragraph and shall send a certification to the Director of the Office of Management and Budget and to each public corporation and municipality whose employees are retired under the ERS, informing them the amount corresponding to the special additional contribution.

The funds to cover the contribution described above, with respect to pensioners of the Central Government, shall be allocated in the Budget of Expenses of the Government of the Commonwealth of Puerto Rico. Public corporations and municipalities whose employees are covered under this Act shall provide the funds to cover the contribution described in Section 2 with respect to their pensioners.

continue

17. PENSION PLAN – continuation

The persons who retire under the provisions of Act 305-1999, known as 'Retirement Savings Accounts Program', and under Chapter 5 of Act No. 447 of May 15, 1951, as amended, shall be excluded from receiving the benefits granted under Act.

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

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program is measured as of June 30, 2014, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined.

As June 30, 2015, the Municipality reported $111,709,942 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability but the information for each program are not available. The Net Pension Liability is measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Municipality's proportionate share was 0.37123%. The Municipality's proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

	Proportionate Share of Net Pension Liabiliy
Act Number 447	$ 88,108,314
Act Number 1	16,043,349
Act Number 305	7,558,278
Total Net Pension Liability	$ 111,709,942

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of $6,406,402. As of June 30, 2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

continue

17. PENSION PLAN – continuation

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,460,180	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	5,370,193	- 893,950
Total	$ 6,830,373	$ 893,950

$4,854,974 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2016	$ 178,790
2017	178,790
2018	178,790
2019	178,790
2020	178,790

Actuarial Assumptions

Actuarial valuations of ERS involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2016.

The long-term expected rate of return on pension plan investments (6.75%) was determined using the non-loan portion of the portfolio that was adopted by the Board during December 31, 2013 as shown below and Milliman's capital market assumptions as of June 30, 2014. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, as provided by the ERS, have an approximate return of 10.0% with no volatility.

continue

17. PENSION PLAN – continuation

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

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

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2014
Amortization Method	18 years closed (beginning July 1, 2014), level dollar
Actuarial Cost Method	Entry-Age Normal Cost Method
Remaining Amortization Period	18 years
Actuarial Assumptions:	
Discount Rate	4.29%
Inflation	N/A
Payroll Growth	N/A
Projected Salary Increase	N/A
Investment Rate of Return	3.10%
Mortality	For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act. No. 127, RP-2000 Employee Mortality Rates from the blue collar adjustments for males and females, projected on a generational basis using Scale AA. as generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

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

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

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

continue

17. PENSION PLAN – continuation

As previously mentioned, because of the budgetary constraints at the present time approximately $90.0 million of this amount were not collected as expected during fiscal year 2014. Further, this additional contribution was reduced to $28.2 million for the Commonwealth's proposed budget for the fiscal year 2014. Similar situation occurred during present fiscal year 2015.

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

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

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

Illiquid Assets

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

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

Net Pension Liability	June 30, 2014	
	Total	**Proportional Share (0.37123%)**
Total Pension Liability	$30,219,517,000	$112,183,216
Fiduciary Net Position	127,488,000	473,274
Net Pension Liability	30,092,029,000	111,709,942
Fiduciary Net Position as a % of Total Pension Liability	0.42%	0.42%
Covered Payroll	$ 3,489,096,000	$11,311,909
Net Pension Liability as a % of Covered Payroll	862.46%	987.54%

continue

17. PENSION PLAN – continuation

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

Discount Rate

The discount rate used to measure the Total Pension Liability was 4.29% for each plan as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Municipality will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability. The plan's Fiduciary Net Position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's Fiduciary Net Position is not projected to be sufficient.

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

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

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continue

17. PENSION PLAN – continuation

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as of June 30, 2013	$28,941,368,000	$ 701,361,000	$28,240,007,000	$103,844,712
Changes for the year:				
Service Cost	419,183,000	-	419,183,000	1,556,133
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	4,905,723
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(61,855,000)	-	(61,855,000)	(229,624)
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	4,448,479
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	109,624
Other Expenses	-	(25,875,000)	25,875,000	96,055
Costs of Bonds	-	(192,947,000)	192,947,000	716,277
Member Contributions	-	359,862,000	(359,862,000)	(1,332,974)
Net Investment Income	-	253,558,000	(253,558,000)	(941,283)
Employer Contributions	-	660,024,000	(660,024,000)	(1,460,180)
Balance as of June 30, 2014	$30,219,517,000	$ 127,488,000	$30,092,029,000	$111,709,942

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

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

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

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	$127,115,690	$112,183,216	$99,726,426
Fiduciary Net Position	473,274	473,274	473,274
Net Pension Liability	$126,642,416	$111,709,942	$99,253,152

continue

17. PENSION PLAN – continuation

Pension Plan Fiduciary Net Position

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

18. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately $2,145,456 for the fiscal year ended June 30, 2015.

19. CONTINGENCIES

A. Claims and Judgments

The Municipality is, at present, a defendant in a number of legal matters that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities. The legal counsel of the Municipality has advised that at this stage in the proceedings of lawsuits he cannot offer an opinion as to the probable outcome.

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available determine that of these claims the Municipality should reported liabilities of $601,033.

B. Federal Grants

In the normal course of operations, Municipality participates in various federal grant agreements from year to year. The expenditures financed by grants are subject to program compliance audits by the grantor and passed-through agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program regulations, the Municipality may be required to reimburse the grantors for such expenditures.

The Report on Compliance with Requirements Applicable to Each Major Federal Award Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the year ended June 30, 2014, disclosed several instances of noncompliance with applicable laws and regulations that were considered to be material weaknesses.

Of the federal expenditures authorized for the fiscal year 2014-2015, the auditors determined that cost amounting $80 are disallowed. Also, $806,286 of the disallowed costs from prior years are pending of final resolution of the awarding agencies.

Municipality is also subject to audits performed by the Office of the Comptroller of Puerto Rico.

continue

19. COMMITMENTS

A. Operating Leases

The Municipality leases real property, buildings, and equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2015, amounted to approximately $253,850. Management believes that the summary of the future minimum rental commitments under noncancelable real property and equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

B. Landfill

Landfill Administration

The Municipality has a contract with Landfill Technologies of Arecibo Corp. (LTAC) until June 30, 2018, to provide the service for the operation and administration of the Municipality's landfill. The Municipality shall deposit solid waste at no cost in the landfill by using authorized vehicles of the Municipality. In addition, LTAC is committed to pay the Municipality $2.00 per ton deposit in the Municipality landfill, except from the Municipality, as royalty, of which $1.00 should be retained by LTAC for capital improvement on the landfill. On February of 2008, both parts agreed to change the royalty for a recycling program established by LTAC. Also, LTAC is authorized to increase the capacity of the landfill by adding a new cell. When this cell beginning operation, LTAC is committed to pay the Municipality as royalty of 10% of gross revenues.

Solid Waste Disposal Contracts

The Municipality has solid waste disposal contracts with Landfill Technologies of Arecibo Corp. (LTAC) until June 30, 2016, to provide the service for the recollection and disposal of solid waste in the Municipality's landfill. As mentioned above, the Municipality shall deposit solid waste at no cost in the landfill by using authorized vehicles of the Municipality. The contracts provided that the Municipality is committed to pay annually the following amounts. Also, the contracts provide an increase of ten percent (10%) at the third year of service. Expenditure for the year ended June 30, 2015 for this service amounts to $2.2 million, approximately.

Future commitments are scheduled as follows:

Year	Amount
2016	$3,325,297

continue

19. COMMITMENTS – continuation

D. Financial and Administrative Policies Due to Fiscal Emergency

In Ordinances 28, 37 and 80 approved by the Municipal Legislature on January 15, January 29 and June 12, 2013, respectively, the legislative body authorized the Mayor to establish financial and administrative policies due to fiscal emergency. This Ordinances establish policies of personnel management, awarding of existent and future contracts, equipment acquisition, determining and collecting accounts receivable, legislative body expenditures, use of municipal vehicles, waste management, land disposition, use of facilities fees, sale of advertisement spots, service fees, reduction of legislators fee, and joint ventures with other government agencies and municipalities to provide services.

20. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position

For the year ended June 30, 2014, the Municipality adjusted net position for the following concept:

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2014	$ 50,839,514
Implementation of GASB 68	(102,384,532)
Adjustments to Account Payable	71,615
Beginning Net Position, as Restated, At July 1, 2014	**$ (51,473,403)**

B. Fund Balance

The following reconciles the June 30, 2014 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2014 for the various funds:

	GENERAL FUND	HEAD START FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Fund Balance (Deficit), as Previously Reported, At June 30, 2014	$ (11,218,909)	$ -	$ 2,802,244	$ 18,707,565	$ 790,143	$ 11,081,043
Adjustment to Account Payable to LTD	3,838,432	-	-	-	-	3,838,432
Adjustment to cancelled account payable	-	-	-	71,615	-	71,615
Beginning Fund Balance, as Restated, At July 1, 2014	**$ (7,380,477)**	**$ -**	**$ 2,802,244**	**$ 18,779,180**	**$ 790,143**	**$ 14,991,090**

continue

21. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating.
- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

continue

22. NEW ACCOUNTING STANDARDS – continuation

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

GASB 69 does not have any impact on the Municipality's financial statements.

23. SUBSEQUENT EVENT

In December 2015 the Municipality obtained the approval for the issuance of general obligation bonds in the amount of $128,000 for the acquisition of equipment. The principal and interest are payable annually for a 7 years term.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 31, 2016, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

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	Budget Amounts		Actual Amounts (Budgetary Basis) (See Accompanying Notes)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE, JULY 1, 2014	**$ (14,087,026)**	**$ (14,087,026)**	**$ (14,087,026)**	**$ -**
Resources (Inflows):				
Property Taxes	10,497,366	10,497,366	10,630,283	132,917
Volume of Business Taxes	10,180,500	10,190,500	7,851,540	(2,338,960)
Sales and Usage Taxes	4,500,500	4,500,500	3,485,932	(1,014,568)
Intergovernmental Revenues	4,468,394	4,468,394	9,434,201	4,965,807
Construction Excise Taxes	7,450,373	7,450,373	1,066,606	(6,383,767)
Charges for Services	858,000	858,000	172,111	(685,889)
Rent	118,799	118,799	221,576	102,777
Interest on Deposits and Investment	-	-	-	-
Miscellaneous	1,517,391	1,507,391	777,191	(730,200)
Transfer from Other funds	-	-	4,711,292	4,711,292
Total Resources (Inflows)	**39,591,323**	**39,591,323**	**38,350,732**	**(1,240,591)**
Amounts Available for Appropriation	25,504,297	25,504,297	24,263,706	(1,240,591)
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,342,158	3,469,759	3,457,083	12,676
General Government	20,640,120	19,363,106	19,818,082	(454,976)
Public Safety	4,169,529	3,724,744	3,712,644	12,100
Public Works	4,830,733	4,319,717	4,279,478	40,239
Culture and Recreation	1,870,073	1,729,178	1,729,120	58
Health and Sanitation	2,791,893	3,386,521	3,608,137	(221,616)
Solid Waste Disposal	-	-	-	-
Human Services and Welfare	1,989,224	1,771,229	1,607,265	163,964
Public Instruction	-	-	-	-
Urban Development	957,593	604,775	604,775	-
Capital Outlays	-	-	-	-
Transfers to Other Funds	-	1,222,294	1,222,294	-
Total Charges to Appropriations	39,591,323	39,591,323	40,038,878	(447,555)
BUDGETARY FUND BALANCE, JUNE 30, 2015	**$ (14,087,026)**	**$ (14,087,026)**	**$ (15,775,172)**	**$ (1,688,146)**

The accompanying *Notes to Required Supplementary Information* are an integral part of this schedule.

1. Budgetary Reporting

The Budgetary Comparison Schedule – General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standard Codification Section 1700, *The Budget and Budgetary Accounting*. Formal and legal budgetary control is based upon major classes of expenditures known as functions.

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page 76)	$ 24,263,706
Difference – Budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(4,711,292)
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	14,087,026
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	$ 33,639,440
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 76)	$ 40,038,878
Difference – Budget to GAAP:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(4,978,477)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	592,977
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,222,294)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 24)	$ 34,431,084

	2015
Proportion of the Net Pension Liability	0.37123%
Proportionate Share of the Net Pension Liability	$ 111,709,942
Covered - Employee Payroll	$ 11,311,909
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	987.54%
Plan's Fiduciary Net Position	$ 473,274
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	0.42%

Notes to Schedule:

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

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

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

		2015
Contractually Required Contribution (Actuarially Determined)	$	6,766,316
Contributions in Relation to the Actuarially Required Contributions		4,477,595
Contribution Deficiency (Excess)	$	2,288,721
Covered - Employee Payroll	$	11,311,909
Contributions as a Percentage of Covered-Employee Payroll		39.58%

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

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

Assets Valuation Method	Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.75%, Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	4.29%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	4.29%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

Mortality

Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed fordisabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

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

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

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

END OF NOTES

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

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Submission Type: Audited / A-133		Fiscal Year End: June 30, 2015
Assets	**Current Assets - Cash:**	
111	Cash - Unrestricted	$ 43,527
113	Cash - Other Restricted	-
100	**Total Cash**	**43,527**
	Receivables:	
124	Accounts Receivable - Other Government	30,203
125	Accounts Receivable - Miscellaneous	183
128	Fraud Recovery	-
128.1	Allowance for Doubful Accounts - Fraud Recovery	-
120	**Total Receivable, Net of Allowance for Doubtful Accounts**	**30,386**
150	**Total Current Assets**	**73,913**
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	117,041
166	Accumulated Depreciation	(110,952)
160	**Total Capital Assets, Net of Accumulated Depreciation**	**6,089**
290	**Total Assets**	**$ 80,002**
Liabilities and Equity	**Liabilities:**	
	Current Liabilities:	
333	Account Payable - Other Government	$ -
347	Inter Program - Due to	-
310	**Total Current Liabilities**	**-**
300	**Total Liabilities**	**-**
Equity	**Equity**	
508.1	Net Investment In Capital Assets	6,089
509.2	Fund Balance Reserved	-
511.1	Restricted Net Position	-
512.4	Unrestricted Net Position	73,913
512.2	Unreserved, Undesignated Fund Balance	-
513	**Total Equity / Net Position**	**80,002**
600	**Total Liabilities and Equity / Net Position**	**$ 80,002**

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

Submission Type: Audited / A-133			Fiscal Year End: June 30, 2015
70600	HUD PHA Operating Grants	$	4,585,520
71100	Investment Income - Unrestricted		100
71400	Fraud Recovery		23,176
71500	Other Revenue		65,815
72000	Investment Income - Restricted		361
70000	**Total Revenue**		**4,674,972**
	Expenses:		
	Administrative:		
91100	Administrative Salaries		415,424
91500	Employee Benefit Contributions - Administrative		73,756
91600	Office Expenses		119,320
91800	Travel		11,038
91900	Other		26,990
91000	**Total Operating - Administrative**		**646,528**
96900	**Total Operating Expenses**		**646,528**
97000	**Excess of Operating Revenue over Operating Expenses**		**4,028,444**
97300	Housing Assistance Payments		4,377,631
97350	HAP Portability-In		65,815
97400	Depreciation Expense		4,179
97500	Fraud Losses		-
90000	**Total Expenses**		**5,094,153**
10000	**Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**	**$**	**(419,181)**
	Memo Account Information:		
11030	Beginning Equity	$	499,183
11040	Prior Period Adjustments, Equity Transfer and Corrections	$	-
11170	Administrative Fee Equity	$	80,002
11180	Housing Assistance Payments Equity	$	-
11190	Units Months Available		11,136
11210	Number of Units Months Leased		10,730

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers Program activities of the Autonomous Municipality of Arecibo (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.* 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, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Position, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.*

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Position are presented in the Municipality's Statement of Net Position. Revenues and Expenses are reported in the *Statement of Activities*.

END OF NOTES

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PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

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FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Direct Program:			
Community Facilities Loans and Grants	10.766		$ 190,093
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	CCC-099 / CCC-240	47,758
Total U. S. Department of Agriculture			237,851
U.S. Department of Housing and Urban Development:			
Direct Program:			
Community Development Block Grant/Entitlement Grants (CDBG)	14.218		1,757,729
Urban Development Action Grant Program	14.221		2,862
Emergency Solutions Grants Program (ESG)	14.231		57,394
Home Investment Partnerships Program (HOME)	14.239		221,324
Section 8 Housing Choice Vouchers Program	14.871		5,089,973
Total U.S. Department of Housing and Urban Development			7,129,282
U. S. Department of Justice:			
Pass-Through Puerto Rico Department of Justice:			
Crime Victim Assistance	16.575	VA-GX-0058	4,397
Total U.S. Department of Justice			4,397
U. S. Environmental Protection Agency (EPA):			
Pass-Through Puerto Rico Environmental Quality Board:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-72-087-70	1,265,820
Total U.S. Environmental Protection Agency (EPA)			1,265,820

continue

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:			
Pass-Through Puerto Rico Office for Elderly Affairs:			
Special Programs for the Aging-Title III, Part B – Grants for Supportive Services and Senior Centers (Cluster)	93.044	N/AV	85,354
Special Programs for the Aging-Title III, Part C – Nutrition Services (Cluster)	93.045	N/AV	266,592
Subtotal Special Programs for the Aging (Cluster)			351,946
Pass-Through Puerto Rico Administration of Families and Children Affairs:			
Promoting Safe and Stable Families	93.556	N/AV	32
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	N/AV	81,488
Subtotal Pass-Through Puerto Rico Administration of Families and Children Affairs			81,520
Pass-Through Administration for the Childhood Care and Integral Development:			
Child Care and Development Block Grant	93.575	G01PRCCDF	695,354
Head Start Program	93.600	02-CH-9944	1,702,491
Subtotal Pass-Through Administration for the Childhood Care and Integral Development			2,397,845
Total U. S. Department of Health and Human Services			2,831,311
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$11,468,661**

The accompanying Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Autonomous Municipality of Arecibo (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available.

3. FEDERAL CFDA NUMBER

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

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* as follows: Head Start Fund – $1,715,388, Capital Activities Fund - $1,455,913, and Other Governmental Funds – $8,297,360.

END OF NOTES

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

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo
Arecibo, 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, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico** (**Municipality**), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements, and have issued our modified report thereon dated March 31, 2016. Our report was qualified because the **Municipality** did not provide a subsidiary of capital assets that agreed with the amounts reported in Governmental Activities of the Governmental-Wide Financial Statements and, also, the depreciation expense on those assets is not supported; we were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. We also disclaim an opinion on the Business-Type Activities and on Major Enterprise Fund – Mi Arecibo, Inc. because we not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Internal Control Over Financial Reporting

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

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

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

AICPA Governmental Audit Quality Center

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo of the
Commonwealth of Puerto Rico

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-004 and 2015-005.

Municipality's Response to Findings

Municipality's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. **Municipality**'s response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the **Municipality**'s internal control or on compliance. This report is an integral part of an audit reformed 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.

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 31, 2016

Stamp No. E212815 was affixed to
the original report.

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Honorable Mayor and
Members of the Municipal Legislature
Autonomous Municipality of Arecibo
Arecibo, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Arecibo of the Commonwealth of Puerto Rico** (**Municipality**)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality**'s major federal programs for the fiscal year ended June 30, 2015. **Municipality**'s major federal programs are identified in the Summary of Auditor's Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality**'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.

Basis for Qualified Opinion (See the following Table)

As described in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirement regarding the following:

Finding Number	CFDA Number	Program (or Cluster) Name	Compliance Requirement	Questioned Cost
2015-006	14.871	Section 8 Housing Choice Vouchers Program	Allowable Costs/Cost Principles; and Special Test and Provisions	$80
2015-007	14.239	Home Investment Partnerships Program (HOME)	Eligibility	-
2015-008	14.239	Home Investment Partnerships Program (HOME)	Eligibility	-
2015-009	14.218	Community Development Block Grant/Entitlement Grants (CDBG)	Equipment and Real Property Management	-
2015-010	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2015-011	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2015-012	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
2015-013	14.871	Section 8 Housing Choice Vouchers Program	Special Test and Provisions	-
Total Questioned Costs				$80

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

Qualified Opinion (See the above Table)

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the above table for the fiscal year ended June 30, 2015.

Other Matters

Municipality's response to the noncompliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Municipality**'s internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006 through 2015-013 to be material weaknesses.

Municipality's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. **Municipality**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 31, 2016

Stamp No. E212816 was affixed to
the original report.

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PART III

FINDINGS AND QUESTIONED COSTS

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

☒ Unmodified Opinions
- Governmental Fund Financial Statements

☒ Qualified Opinion
- Governmental Activities (GWFS)

☐ Adverse Opinion

☒ Disclaimer Opinion
- Business-Type Activities (GWFS)
- Enterprise Fund – Mi Arecibo, Inc.

Internal control over financial reporting:

• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported
Noncompliance material to financial statements noted?	☒ Yes	☐ No

Federal Awards

Internal control over major programs:

• Material weakness (es) identified?	☒ Yes	☐ No
• Significant deficiency (ies) identified?	☐ Yes	☒ None Reported

Type of auditor's report issued on compliance for Major Programs:

☒ Unmodified Opinion
- Capitalization Grants for Clean Water State Revolving Funds
- Special Programs for the Aging-Title III, Part B – Grants for Supportive Services and Senior centers (Cluster)
- Special Programs for the Aging-Title III, Part C – Nutrition Services (Cluster)
- Head Start Program

☒ Qualified Opinion
- Community Development Block Grant/ Entitlements Grants
- Home Investment Partnerships Program (HOME)
- Section 8 Housing Choice Vouchers Program

☐ Adverse Opinion ☐ Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?	☒ Yes	☐ No

continue

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant/ Entitlements Grants
14.239	Home Investment Partnerships Program (HOME)
14.871	Section 8 Housing Choice Vouchers Program
66.458	Capitalization Grants for Clean Water State Revolving Funds
93.044	Special Programs for the Aging-Title III, Part B – Grants for Supportive Services and Senior centers (Cluster)
93.045	Special Programs for the Aging-Title III, Part C – Nutrition Services (Cluster)
93.600	Head Start Program

Dollar threshold used to distinguish between
Type A and Type B Programs: $344,060

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2015-001**
TYPE OF FINDING	**MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS**
CRITERIA	Codification of Governmental Accounting and Financial Reporting Standards, Section 1400.101 states that the reporting entities should report general capital assets in governmental activities, proprietary and fiduciary funds. Capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period (AU § 1400.103). The **Municipality** should have established internal control policies and procedures in order to properly account for capital assets and to maintain adequate and updated inventory records that provide sufficient and competent evidence to support the existence, rights and obligations, completeness, and valuation and allocation, applicable to the capital assets in governmental activities of the Governmental-Wide Financial Statements.
CONDITION	During our audit the **Municipality** did not provide a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the Governmental-Wide Financial Statements. Capital assets are the most significant assets of the **Municipality** and therefore, have a significant impact on the Governmental-Wide Financial Statements. ***This is a prior year deficiency.***
CAUSE	The **Municipality**'s internal control system, failed to keep track of the additions of capital assets and to assure that the subsidiaries agree with the amounts presented in the Governmental-Wide Financial Statements.
EFFECT OR POSSIBLE EFFECT	The financial statements prepared by the **Municipality** presented the capital assets and depreciation expense in the Governmental-Wide Financial Statements that do not agree with the subsidiaries provided. In addition, the Governmental-Wide Financial Statements are misstated for an unknown amount related to construction in progress and infrastructure.
RECOMMENDATION	We recommend that the **Municipality** review the subsidiaries of capital assets in order to assure that they reconcile with the amounts presented in Governmental-Wide Financial Statements. In addition, review all those construction projects that comply with the capitalization policy of the **Municipality**, and are in progress, and adjust the subsidiaries and Governmental-Wide Financial Statements accordingly.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Municipality will prepare the financial statements for the year ended on June 30, 2016, reviewing the subsidiaries of capital assets in order to assure that they reconcile with the amounts presented in Governmental-Wide Financial Statements. In addition, Finance Department will review of all those construction projects to assure compliance with the capitalization policy of the Municipality, and are in progress, and adjust the subsidiaries and Governmental-Wide Financial Statements accordingly. Completion of this corrective action would take more time than expected due to Municipality's lack of documentation at present time. A special teamwork would be assigned to find the supporting evidence regarding title and ownership of capital assets.
IMPLEMENTATION DATE	December 31, 2016
RESPONSIBLE PERSON	Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2015-002**

TYPE OF FINDING **MATERIAL WEAKNESS IN PREPARED FINANCIAL STATEMENTS**

CRITERIA

Codification of Statements on Auditing Standards, *Communicating Internal Control Related Matters Identified in an Audit* (AUC Section 265.11), states that the auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses identified during the audit, including those that were remediated during the audit.

Paragraph 4.23 of the *Government Auditing Standards* (GAGAS) states the follows:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

CONDITION

During our audit the **Municipality** did not provide financial documentation that agreed with the amounts reported in business-type activities of the governmental-wide financial statements and the enterprise funds financial statements.

CAUSE

The **Municipality**'s internal control system, failed to keep records of the transactions of the amounts presented in the business-type activities of the governmental-wide financial statements and the enterprise funds financial statements.

EFFECT OR POSSIBLE EFFECT

We were also unable to obtain documentation of the beginning balance of the assets, liabilities, and net position/fund balance, we did not obtain access to the accounting documentation.

RECOMMENDATION

We recommend that the **Municipality** prepare their financial statements maintaining accounting records of the business-type activities and enterprise funds, and to support the information presented as assets, liabilities, net position, revenues and expenses for the enterprise funds.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

The Municipality has been implemented internal control to prepare their statements maintaining accounting records of the business-type activities and enterprises funds, and to support the information presented as assets, liabilities, net position, revenues and expenses for the enterprises funds.

IMPLEMENTATION DATE June 30, 2016

RESPONSIBLE PERSON Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2015-003**

TYPE OF FINDING **MATERIAL WEAKNESS IN PREPARED BANK RECONCILIATIONS**

CRITERIA

Chapter VIII, Article 8.010 of Act Number 81 of August 30, 1991, states that the Municipality should maintain an effective and updated accounting system. Section 12 of the Regulations for Municipal Administration states that bank reconciliations for each bank account maintained by the municipality must be performed monthly in the Uniform Municipal Accounting System (UMAS). If for some extraordinary reason, they were prevented from using the UMAS, the bank reconciliations are performed in a model in electronic format provided by the Office of the Commissioner of Municipal Affairs. In addition, municipalities have to prepare a monthly report in which the transactions of receipts and disbursements are reflected the month and the balance of funds duly reconciled with the bank reconciliation.

CONDITION

During Fiscal Year 2014-2015, the **Municipality** failed to prepare bank conciliations for its local, state and federal accounts on a timely manner. Bank conciliations were prepared by an external accounting firm more than a year overdue. In addition, we noted that no bank reconciliations were prepared for 11 bank accounts. Other bank reconciliations presented unreconciled differences ranging from $45.75 to $52,354,492.60, which were not real when verified with the trial balances. ***This is a prior year deficiency.***

CAUSE

The **Municipality** did not maintain effective internal control over the transactions recorded on its accounting records and the preparation of its bank conciliations.

EFFECT OR POSSIBLE EFFECT

The **Municipality**'s cash accounting record did not provide updated and complete financial information that presents the correct cash balance in their accounts at the time of authorization of payments.

RECOMMENDATION

We recommend that the **Municipality** should establish internal control and procedures in order to maintain an accounting system that contains information pertaining to bank reconciliation. The Finance Director will delegate the responsibility to perform the monthly bank reconciliations and reports to an employee or Municipality official under its supervision. These reconciliations should be signed by the employee or officer and must be checked and signed by the Finance Director.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

Municipality had established internal control and procedures to maintain the new accounting system with the information pertaining to bank reconciliation. The Director of Finance will delegate the responsibility to perform the monthly bank reconciliations and reports to an employee or Municipality official under its supervision.

IMPLEMENTATION DATE July 31, 2016

RESPONSIBLE PERSON Mr. Juan A. Galán Ramirez – Director of Finance

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2015-004 (See FINDING REFERENCE NUMBER 2015-006)**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**RQ020**
COMPLIANCE REQUIREMENT	**ALLOWABLE COSTS/COST PRINCIPLES / SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA	24 CFR 982.505 (a) states that a payment standard is used to calculate the monthly housing assistance payment for a family. The “payment standard” is the maximum monthly subsidy payment. In addition, Circular A-87, Attachment A, Section C (1)(i) establishes that costs, to be allowable under Federal awards, must be adequately documented.
CONDITION	During our audit procedures we noted difference between the contract rent to owner payment and the monthly payment made. From the ninety (90) payments made on May 2015, related to the HAP payments, we noted unreconciled differences in two (2) files. In one file the payment was $8.00 in excess of the determined amount, and in the other $14.00 less than the determined amount.

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2015-005 (See FINDING REFERENCE NUMBER 2015-009)**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218)** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**B-13-MC-72-009**
COMPLIANCE REQUIREMENT	**EQUIPMENT AND REAL PROPERTY MANAGEMENT**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**
CRITERIA	24 CFR §85.32 – Property records must be maintained that include a description of the property, an identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. A physical inventory of the property must be taken and the results reconciled with the property records a least once every two years. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
CONDITION	The **Municipality** did not provide a property records of all the property and equipment acquired with CDBG.

FINDING REFERENCE NUMBER	**2015-006 (See FINDING REFERENCE NUMBER 2015-004)**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**RQ020**
COMPLIANCE REQUIREMENT	**ALLOWABLE COSTS/COST PRINCIPLES / SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA	24 CFR 982.505 (a) states that a payment standard is used to calculate the monthly housing assistance payment for a family. The “payment standard” is the maximum monthly subsidy payment. In addition, Circular A-87, Attachment A, Section C (1)(i) establishes that costs, to be allowable under Federal awards, must be adequately documented.
CONDITION	During our audit procedures we noted difference between the contract rent to owner payment and the monthly payment made. From the ninety (90) payments made on May 2015, related to the HAP payments, we noted unreconciled differences in two (2) files. In one file the payment was $8.00 in excess of the determined amount, and in the other $14.00 less than the determined amount.
QUESTIONED COSTS	$80.00 (See below.)
INFORMATION TO PROVIDE PROPER PERSPECTIVE	In one file the payment was $8.00 during ten months for a total of $80.00 in excess of the determined amount, and in the other was $14.00 during nine months for a total of $126.00 less than the determined amount. ***This is a prior year deficiency.***
CAUSE	The **Municipality** doesn't have a detail of all HAP payments made in order to reconcile this information with the approved amount as established in the family report.
EFFECT OR POSSIBLE EFFECT	The **Municipality** failed to pay the established rent to owners. One was paid in excess of the maximum monthly payment and the other was deprived of receiving the maximum amount available for him.
RECOMMENDATION	We recommend management to monitor the housing payments in order to assure that the payments are made in accordance with the contract rent to owner.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	All the findings mentioned to this day have been corrected: About the findings Allowable Cost and Hap Payments. 1) These have already been corrected. 2) It will be audited one month in advance when making payment owner so this will not happen again. 3) Mrs. Aixa González was assigned to help Mr. Miguel Díaz in relation to this. 4) The director is going to be following up monthly to the above mentioned.
IMPLEMENTATION DATE	March 29, 2016
RESPONSIBLE PERSON	Mr. Miguel Díaz / Mrs. Aixa González / Wesley Rivera Cuadro, Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-007**

FEDERAL PROGRAM **HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA NO. 14.239)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

AWARD NUMBER **M-10-MC-720201**

COMPLIANCE REQUIREMENT **ELIGIBILITY**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

24 CFR, Subpart B, Section 5.210 requires applicants for and participants in covered HUD programs to disclose, and submit documentation to verify, their Social Security Numbers (SSNs). In 24 CFR Subpart B, Section 5.230 (a) requires that each member of the family of an assistance applicant or participant who is at least 18 years of age, and each family head and spouse regardless of age, shall sign one or more consent forms. In 24 CFR Subpart F, Section 92.252 requires (a) Rent limitation. HUD provides the following maximum HOME rent limits. The rent limits apply to the rent plus the utilities or the utility allowance. The participating jurisdiction may designate (in its written agreement with the project owner) more than the minimum HOME units in a rental housing project, regardless of project size, to have Low HOME Rents that meet the requirements of this paragraph. The participating jurisdiction must review and approve rents proposed by the owner for units, subject to the maximum rent limitations.

CONDITION

As part of our audit procedures over the HOME Program, we selected a sample of three (3) participants for the tenant – based rent assistance (TBRA), which had a population of seven (7) participants during fiscal year 2014-2015. We noted that in three (3) participants, the required release forms were not signed. In addition, we noted that a participant received an excess of the payment permitted by HUD. Also, the documentation in one (1) tenant's file doesn't provide adequate evidence of how the procedures to select the participants are made.

QUESTIONED COSTS

Not Determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE

In the evaluation of the tenant's files, we observed that the documentation included is not consistent in all files and no review of the determinations of eligibility are made.

CAUSE

The coordinator of the program at June 30, 2015 doesn't have the required trainings in order to properly document the selection of eligible tenants. No monitoring of the activities of the coordinator are performed by other personnel in the **Municipality**.

EFFECT OR POSSIBLE EFFECT

The **Municipality** doesn't have written consent from tenants in order to assure that required income is included and provided to the **Municipality** to determine eligibility.

RECOMMENDATION

We recommend management to provide adequate trainings to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to properly document and maintain evidence of inclusion of participants in the waiting list, preferences and subsequent selection in the program.

continue

FINDING REFERENCE NUMBER	**2015-007 – continuation**
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	With regard to the tenant based rental assistance, the HOME Program has only one active participant. When the program complete this agreement the Autonomous Municipality of Arecibo, through the HOME Program, will no longer work with this activity.
IMPLEMENTATION DATE	July 1, 2016 through June 30, 2017
RESPONSIBLE PERSON	Mr. Luis Cruz Nieves

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-008**

FEDERAL PROGRAM **HOME INVESTMENT PARTNERSHIPS PROGRAM (CFDA NO. 14.239)**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

AWARD NUMBER **M-10-MC-720201**

COMPLIANCE REQUIREMENT **ELIGIBILITY**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

24 CFR, Subpart F Section 92.254 (a)(3) requires that the housing must be acquired by a homebuyer whose family qualifies as a low-income family and the housing must be the principal residence of the family throughout the period described in paragraph (a)(4) of this section. Section 92.254 (a)(4) establishes that the HOME-assisted housing must meet the affordability requirements for not less than the applicable period specified in the following table, beginning after project completion. The per unit amount of HOME funds and the affordability period that they trigger are described more fully in paragraphs (a)(5)(i) (resale) and (ii) (recapture) of this section. In addition, 24 CFR, Subpart K, Section 92.504 (a) states that the participating jurisdiction is responsible for managing the day to day operations of its HOME Program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise.

CONDITION

As part of our audit procedures over the HOME Program, we verified the two activities related to homeownership assistance. We didn't find in the participants files evidence of the principal residency requirement. In addition, no evidence in writing was included in the files, related to the requirement of continuing affordability.

QUESTIONED COSTS

Not Determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE

This is a systemic deficiency.

CAUSE

The coordinator of the program at June 30, 2015 doesn't have the required trainings in order to properly document this provisions.

EFFECT OR POSSIBLE EFFECT

The **Municipality** can't provide evidence indicating that they evaluated and required the participant of the homeownership assistance to comply with the principal residency requirement. In addition, if the house does not continue to be the principal residency, the **Municipality** doesn't have a written agreement requiring compliance with provisions from federal regulations.

RECOMMENDATION

We recommend management to provide adequate trainings to the personnel in charge of the determination and documentation of eligibility for the homeownership assistance.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

The Municipal Development Department has a new HOME Manager. From this, we worked with a new procedure to carry out the qualification of participants and subsequent activities by monitors for homebuyer assistance.

IMPLEMENTATION DATE

July 1, 2016 through June 30, 2017

RESPONSIBLE PERSON

Mr. Luis Cruz Nieves

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2015-009 (See FINDING REFERENCE NUMBER 2015-005)**
FEDERAL PROGRAM	**COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS (CFDA NO. 14.218)** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**B-13-MC-72-009**
COMPLIANCE REQUIREMENT	**EQUIPMENT AND REAL PROPERTY MANAGEMENT**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**
CRITERIA	24 CFR §85.32 – Property records must be maintained that include a description of the property, an identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. A physical inventory of the property must be taken and the results reconciled with the property records a least once every two years. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. Adequate maintenance procedures must be developed to keep the property in good condition. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.
CONDITION	The **Municipality** did not provide a property records of all the property and equipment acquired with CDBG.
QUESTIONED COSTS	None
INFORMATION TO PROVIDE PROPER PERSPECTIVE	**Municipality** was unable to provide evidence of the property and equipment management. This is a systemic deficiency. ***This is a repeat finding.***
CAUSE	**Municipality** doesn't have accurate records to properly trace the property and equipment activities that should be reported to HUD.
EFFECT OR POSSIBLE EFFECT	**Municipality** is unable to assure that property acquired or constructed with CDBG funds are properly accounted and the usage is according to Federal requirements.
RECOMMENDATION	We recommend **Municipality** to identify all properties acquired with CDBG funds and maintain adequate accounting records in accordance with Federal regulation.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	Personal property were the same as the requested updated mandatory requirements with 24 CFR 85.32 it was given to Mr. Christian Castro. The reconciliation process will start working from July 2016. Began prepare a registration of property acquired and built with funds CDBG. It has evidence from 2011 to 2014. During the next month will continue rising to get evidence to the year 1994 to start the conversion in System IDIS.
IMPLEMENTATION DATE	December 31, 2016
RESPONSIBLE PERSON	Mr. Luis Cruz Nieves

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2015-010**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871)** **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**RQ020**
COMPLIANCE REQUIREMENT	**SPECIAL TEST AND PROVISIONS**
TYPE OF FINDING	**MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**
CRITERIA	24 CFR Section 982.405 (a) states that the PHA must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS.
CONDITION	During our HQS Inspection Test, we noted that twenty-seven (27) units were not inspected annually. The lapse of time between the last two periods of inspections fluctuated from a one day to two and a half months over the required period for the performance of the annual inspection.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	A total of ninety (90) participant files were examined; on twenty-seven (27) files examined (30%) we noted that the inspections were made after the required period. ***This is a repeat finding.***
CAUSE	The **Municipality** didn't have a plan to assure that the visits for the revision of the HQS were made within the required period established by HUD.
EFFECT OR POSSIBLE EFFECT	The **Municipality** failed to visit the units within the annually time frame required by the regulation. The **Municipality** did not obtain reasonable assurance that the housing units meet HQS established by HUD.
RECOMMENDATION	We recommend management to monitor the performance of the inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance with this requirement.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	These findings to date have been corrected: 1) We began to audit the records. 2) We added support to the inspectors, Mrs. Maribel Gerena and Mr. Raymond Guzmán. 3) Inspections by route were made to improve efficiency and time. 4) We are doing the inspections within four months in advance. 5) The director is going to be following up to ensure that all these implementations are executed.
IMPLEMENTATION DATE	April 1, 2016
RESPONSIBLE PERSON	Maribel Gerena / Raymond Guzmán / Wesley Rivera Cuadro, Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-011**

FEDERAL PROGRAM **SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

AWARD NUMBER **RQ020**

COMPLIANCE REQUIREMENT **SPECIAL TEST AND PROVISIONS**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

24 CFR Section 982.404 (a)(3) states that the PHA must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction. If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days (or any PHA-approved extension).

CONDITION

During our HQS Enforcement Test we selected a sample of forty (40) units that didn't pass the inspection and for which and enforcement period was assigned. We noted that the time granted for four (4) tenants to correct a deficiency was monitored within ten (10) days and two months after the 30 calendar day's period established by the regulation.

QUESTIONED COSTS

Not Determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE

This is a systemic problem. ***This is a repeat finding.***

CAUSE

The **Municipality** didn't have a plan to assure that the visits for the enforcement were made within the required established period.

EFFECT OR POSSIBLE EFFECT

The **Municipality** failed to visit the units for which enforcement was required within the 30 calendar days required by the regulation, which leads to housing assistance payments that are not allowed as established by the regulation.

RECOMMENDATION

We recommend management to monitor the enforcement inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

In addition with the enforcement:
1) It was assigned to Mrs. Maribel Gerena and Mr. Raymond Guzmán for the HQS.
2) HQS has being audited on advance.
3) A list was created with the names of each person who made the HQS.
4) Worksheets were sent out for improvement thereof.

IMPLEMENTATION DATE

April 1, 2016

RESPONSIBLE PERSON

Maribel Gerena / Raymond Guzmán / Wesley Rivera Cuadro, Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-012**

FEDERAL PROGRAM **SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871)
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

AWARD NUMBER **RQ020**

COMPLIANCE REQUIREMENT **SPECIAL TEST AND PROVISIONS – ROLLING FORWARD EQUITY BALANCES**

TYPE OF FINDING **MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE**

CRITERIA

24 CFR 982.158 (a) states that the PHA must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements, in a manner that permits a speedy and effective audit. The records must be form required by HUD, including requirements governing computerized or electronic forms of record-keeping. The must comply with the financial reporting requirements in 24 CFR Part 5, Subpart H.

CONDITION

As part of our audit procedures over the monthly submitted reports, Voucher Management System (VMS), we required evidence of how the Administrative Fee Equity and HAP Equity were calculated. The accountant didn't provide a monthly detail that reconciled with the information submitted in the VMS. In addition, the amounts presented in the VMS at June 30, 2015, do not reconcile with the amounts presented in the Financial Data Schedule (FDS).

QUESTIONED COSTS

Not Determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE

The bank reconciliations were not prepared timely, therefore, the reconciliations and roll forward of the HAP and Administrative Fee Equity was not reconciled monthly.

CAUSE

The program accountant do not reconcile the HAP and Administrative Fee Equity balances monthly.

EFFECT OR POSSIBLE EFFECT

The **Municipality** did not have proper accounting records to allow them maintain complete and accurate to detect and correct accounting errors in a timely manner.

RECOMMENDATION

We recommend management to prepare the bank conciliations timely, and reconcile on a monthly basis the HAP and Administrative Fee equity balances and document it.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

We talked with Mr. Miguel Díaz, Accounting and manager VMS report on the problem that exists in the discrepancy as reported. I was ordered that before submitting the VMS to contact HUD to verify the information every month.

IMPLEMENTATION DATE

March 1, 2016

RESPONSIBLE PERSON

Mr. Miguel Díaz / Wesley Rivera Cuadro, Director

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2015-013**
FEDERAL PROGRAM	**SECTION 8 HOUSING CHOICE VOUCHERS PROGRAM (CFDA NO. 14.871) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**
AWARD NUMBER	**RQ020**
COMPLIANCE REQUIREMENT	**SPECIAL TEST AND PROVISIONS – HOUSING ASSISTANT PAYMENT**
TYPE OF FINDING	**MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**
CRITERIA	24 CFR 982.451(b)(2) states that the monthly housing assistance payment by the PHA is credited toward the monthly rent to owner under the family's lease, (3) The total of rent paid by the tenant plus the PHA housing assistance payment to the owner may not be more than the rent to owner. The owner must immediately return any excess payment to the PHA. Notice PIH 2011-67 state that Disbursements will continue to be scheduled to arrive at the PHAs' banks on the first business day of the month, which is the date on which PHAs issue their Housing Assistance Payments checks to property owners. This schedule ensures that PHAs do not receive advances from HUD for more than each PHA's immediate disbursement needs.
CONDITION	During our audit we noted that **Municipality** didn't scheduled the monthly payments checks to 5 property owners. The lapse of time fluctuated from 13 to 24 days after the first 5 days of the month.
QUESTIONED COSTS	Not Determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	A total of 90 participant files were examined; on 5 files examined (6%) we noted that the housing payments were made after the required period. ***This is a prior year deficiency.***
CAUSE	The **Municipality** did not obtain reasonable assurance that the units payments meet Housing Assistant Payment established by HUD.
EFFECT OR POSSIBLE EFFECT	The **Municipality** failed to pay the rent to owners within the monthly time frame required by the regulation.
RECOMMENDATION	We recommend management to monitor the performance of the housing payments when required, and prepare a payment schedule in order to assure compliance with this requirement.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	All the findings mentioned to this day have been corrected: About the findings Allowable Cost and Hap Payments. 1) These have already been corrected. 2) It will be audited one month in advance when making payment owner so this will not happen again. 3) Mrs. Aixa González was assigned to help Mr. Miguel Díaz in relation to this. 4) The director is going to be following up monthly to the above mentioned.
IMPLEMENTATION DATE	March 1, 2016
RESPONSIBLE PERSON	Mr. Miguel Díaz / Mrs. Aixa González / Wesley Rivera Cuadro, Director

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

NONE

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2014

Finding Number	**2014-010**	**Allowable Costs/Cost Principles** Missing supporting payments documentation.
CFDA Number	10.558	
Questioned Cost	$159,895.43	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education.	

Finding Number	**2014-011**	**Allowable Costs/Cost Principles** Difference between the contract rent to owner payment and the monthly payment made.
CFDA Number	14.871	
Questioned Cost	$52,915.60	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-012**	**Allowable Costs/Cost Principles** Missing supporting payments documentation.
CFDA Number	93.600	
Questioned Cost	$94,216.28	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

Finding Number	**2014-013**	**Davis-Bacon Act** The Municipality didn't provide evidence of compliance with the Davis-Bacon Act.
CFDA Number	93.600	
Questioned Cost	Not Determined	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2014-014**	**Matching, Level of Effort, and Earmarking** No evidence was provided in order to ascertain compliance with earmarking requirement.
CFDA Number	14.239	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-015**	**Matching, Level of Effort, and Earmarking** No evidence was provided of compliance with the earmarking requirement set – aside for community housing development organizations (CHDO).
CFDA Number	14.239	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-016**	**Matching, Level of Effort, and Earmarking** No evidence was provided of the administrative expenditure reported; and no detail was provided in order to ascertain the percentage of children with disabilities and high income.
CFDA Number	93.600	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

Finding Number	**2014-017**	**Eligibility** No evidence was provided for control testing and compliance testing for one (1) participant.
CFDA Number	10.558	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2014-018**	**Eligibility** We noted that in eight (8) participants, the required release forms were not signed. In addition, we noted that a participant received the benefits from the TBRA since June 10, 2013 (date in which the contract was signed), but the evidence of solicitation (TBRA) was signed on September 17, 2014.
CFDA Number	14.239	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2014-019**	**Eligibility** No evidence was provided for the selection of tenants which determination of eligibility was made before July 2013.
CFDA Number	14.239	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2014-020**	**Eligibility** We didn't find a signed Release Forms in five (5) participants' files.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2014-021**	**Eligibility** We didn't find a signed Release Forms in five (5) participants' files.
CFDA Number	93.600	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	
Finding Number	**2014-022**	**Equipment and Real Property Management** No evidence was provided for property records of all the property and equipment acquired with CDBG.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2014-023**	**Equipment and Real Property Management** No evidence was provided of an inventory of equipment owned with Head Start funds.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

Finding Number	**2014-024**	**Program Income** No evidence was provided of property that was constructed with CDBG funds, although, a report from IDIS provides evidence of construction of facilities with CDBG funds.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-025**	**Reporting** The Municipality did not submit the required Unaudited Financial Reports to the US Housing and Urban Development of fiscal year ending June 30, 2014 during the required period.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-026**	**Reporting** The close out report was submitted timely to the pass-through agency, but, no accounting records were provided that reconciled with the close out report.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2014-027**	**Subrecipient Monitoring** No evidence in the participants files of the principal residency requirement. In addition, no evidence in writing was included in the files, related to the requirement of continuing affordability.
CFDA Number	14.239	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-028**	**Special Test and Provisions** Delay in performance of the annual inspection and others not inspected.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-029**	**Special Test and Provisions** No evidence was provided that the PHA conducted supervisory quality control inspection.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2014-030**	**Special Test and Provisions** Payments checks to property owners lapse of time fluctuated from eight (8) days to three (3) months after the first five (5) days of the month.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2014-031**	**Special Test and Provisions** The accountant didn't provide a monthly detail that reconciled with the information submitted in the VMS. In addition, the amounts presented in the VMS at June 30, 2014, do not reconcile with the amounts presented in the Financial Data Schedule (FDS).
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2014-032**	**Special Test and Provisions** Missing documentation and delay in final inspections relating to Housing Rehabilitation.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2014-033**	**Special Test and Provisions** No evidence of the licenses required by the pass-through agency were provided for the selected centers.
CFDA Number	14.871	
Questioned Cost	Not determined.	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

FISCAL YEAR 2013

Finding Number	**2013-008**	**Allowable Costs/Cost Principles** Missing supporting payments documentation.
CFDA Number	93.600	
Questioned Cost	$92,996	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2013-009**	**Allowable Costs/Cost Principles** Transfer of $200,000 from Head Start Program; $200,000 from Section 8 Housing Choice Vouchers Program, and $50,000 from Child and Adult Care Food Program for not authorized purposes.
CFDA Number	10.558 14.871 93.600	
Questioned Cost	$450,000	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education, U.S. Department of Housing and Urban Development, and Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	
Finding Number	**2013-010**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2013-011**	**Davis-Bacon Act** The Municipality didn't provide evidence of compliance with the Davis-Bacon Act.
CFDA Number	93.600	
Questioned Cost	Not Determined	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	
Finding Number	**2013-012**	**Eligibility** A new participant was admitted to the program even though that their income exceeded the income guideline established by HUD for a family composition of 4.
CFDA Number	14.871	
Questioned Cost	$1,290	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2013-013**	**Matching, Level of Effort, and Earmarking** Expenditures related to public services exceeded the amount established by formula by HUD.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2013-014**	**Reporting** The SEFA prepared by the Municipality presented material misstatements related to the expenditures of all Federal programs.
CFDA Number	All	
Questioned Cost	None	
Auditee Comments	Pending of final determination of cognizant agency.	

Finding Number	**2013-015**	**Reporting** The Municipality did not submit the Data Collection Form and Reporting Package to the Federal Audit Clearinghouse of fiscal year ending June 30, 2013 during the required period.
CFDA Number	All	
Questioned Cost	None	
Auditee Comments	Pending of final determination of cognizant agency.	

Finding Number	**2013-016**	**Reporting** The Municipality accounting records did not reconciled with the audited financial statements of prior year. Furthermore, during fiscal year 2012-2013, the Municipality did not have adequate accounting records in order to produce the financial statements with supporting documentation timely.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**2013-017**	**Reporting** The Municipality submitted the Close-Out Report on April 12, 2013, almost thirty-three (33) days after the close of the program year.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Department of Family – Administration for the Childhood Care and Integral Development.	

Finding Number	**2013-018**	**Reporting** The Consolidated Annual Performance and Evaluation Report (CAPER) on October 1, 2013, ninety-three (93) days after the end of fiscal year.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2013-019**	**Special Test and Provisions** Delay in performance of the annual inspection.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**2013-020**	**Special Test and Provisions** The Municipality don’t have a signed Depository Agreement form, as required by HUD, with the financial institution.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

FISCAL YEAR 2012

Finding Number	**12-07**	**Allowable Costs/Cost Principles** Transfer of funds to the Head Start Program.
CFDA Number	10.558	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Puerto Rico Department of Education.	

Finding Number	**12-09**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-10**	**Reporting** Federal Financial Report for the quarter ended March 31, 2012 were not available for examination.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-11**	**Matching, Level of Effort, and Earmarking** Municipality has not complied with the use of 70% of funds over a period of up to three years.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-12**	**Special Test and Provisions** Missing documentation and delay in final inspections relating to Housing Rehabilitation.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**12-15**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	14.257	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-17**	**Special Test and Provisions** Transfer of funds to the Head Start Program to cover matching funds. Also, transfer of funds to the operating account of the General Fund.
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-18**	**Reporting** Audited Financial Statement was not submitted to HUD through the REAC in the stipulated date (March 31, 2013).
CFDA Number	14.871	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

Finding Number	**12-20**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**12-21**	**Reporting** Could not trace the amounts presented in Financial Reports to the accounting records.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**12-22**	**Allowable Costs/Cost Principles** Count not verify the intended use of transfer of funds to the operating account of the General Fund.
CFDA Number	93.600	
Questioned Cost	$210,000	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**12-23**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**12-24**	**Allowable Costs/Cost Principles** Transfer of funds from the Section 8 Housing Voucher Program to the Head Start Program and from Child and Adult Care Food Program to the Head Start Program.
CFDA Number	10.558 14.871 93.575 93.600	
Questioned Cost	Not Determinable	
Auditee Comments	Pending of final determination of Pass-Through Entity PR Administration for Children and Families of the Department of Families, the US Department of Housing and Urban Development, and the Pass-Through Entity Puerto Rico Department of Education.	

Finding Number	**12-25**	**Procurement, Suspension, and Debarment** Missing contract clauses.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

continue

(2) Audit Findings not Corrected or Partially Corrected: – continuation

Finding Number	**12-26**	**Reporting** The Municipality did not complete the single audit for the Fiscal Year 2011-2012 during the period established by the Single Audit Act Amendments of 1996.
CFDA Number	ALL	
Questioned Cost	None	
Auditee Comments	Pending of final determination of the overseeing agency.	

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

FISCAL YEAR 2011

Finding Number	**11-05**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the US Department of Housing and Urban Development.	
Finding Number	**11-07**	**Special Test and Provisions** Missing documentation and delay in final inspections relating to Housing Rehabilitation.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the US Department of Housing and Urban Development.	
Finding Number	**11-08**	**Real Property Acquisition and Relocation Assistance** Land acquisition of protected wilderness area that could be preserved in its natural state and could not be developed.
CFDA Number	14.239	
Questioned Cost	$52,000	
Auditee Comments	More than four years had passed without decision of the US Department of Housing and Urban Development.	

continue

(4) Audit findings is no longer valid: – continuation

Finding Number	**11-10**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**11-11**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**11-13**	**Matching, Level of Effort, and Earmarking** The Municipality does not maintain proper documentation to ensure compliance with the program required contribution.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**11-14**	**Procurement, Suspension, and Debarment** Missing contract clauses.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

continue

(4) Audit findings is no longer valid: – continuation

FISCAL YEAR 2010

Finding Number	**10-15**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.575	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

Finding Number	**10-18**	**Cash Management** Delay to disburse requested fund since the date they were received.
CFDA Number	93.600	
Questioned Cost	None	
Auditee Comments	More than four years had passed without decision of the Pass-Through Entity Administration for the Childhood Care and Integral Development of the Puerto Rico Family Department.	

END OF SCHEDULE

MUNICIPALITY OF ARECIBO
CORRECTIVE ACTION PLAN FOR THE
SINGLE AUDIT REPORT OF THE YEAR ENDED JUNE 30, 2015

FINDING NUMBER	AUDITOR'S DESCRIPTION	CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	TARGET COMPLETION DATE
2015-001	During our audit the Municipilaity did not provide a subsidiary of capital assets that agreed with the amounts reported in governmental activities of the Governmental-Wide Financial Statements. Capital assets are the most significants assets of the Municipality and therefore, have a significant impact on the Governmental-Wide Financial Statements.	Municipality will prepare the financial statements for the year endend on June 30, 2016, reviewing the subsidiaries of capital assets in order to assure that they reconcile with the amounts presented in Governmental-Wide Financial Statements. In addition, finance Department will review of all those construction projects to assure compliance with the capitalization policy of the Municipality, and are in progress, and adjust the subsidiaries and Governmental-Wide Financial Statements accordingly. Completion of this corrective action would take more time than expected due to Municipality's lack of documentation at present time. A special teamwork would be assigned to find the supporting evidence regarding title and ownership of capital assets.	Mr. Juan A. Galán Ramirez - Director of Finance	Dec. 31, 2016
2015-002	During our audit the Municipality did not provide financial documentation that agreed with the amounts reported in business-type activities of the governmental-wide financial statements and the enterprises funds financial statements.	The Municipality has been implemented internal control to prepare their statements maintaining accounting records of the business-type activities ans enterprises funds, and to support the information presented as assets, liabilities, net position, revenues ans expenses for the enterprises funds.	Mr. Juan A. Galán Ramirez - Director of Finance	
2015-003	During fiscal Year 2014-205, the Municipality failed to prepare bank conciliations for its local, state and federal accounts on a timely manner. Bank conciliations were prepared by an external accounting firm more than a year overdue. In addition, we noted that no bank reconciliations were prepared for 11 bank accounts. Other bank reconciliations presented unreconciled differences raging from $45.75 to $52,354,492.60, which were not real when verified wit the trial balances.	Municipality had established internal control and procedures to maintain the new accounting system with the information pertaining to bank reconciliation. The Director of Finance will delegate the responsibility to perform the monthly bank reconciliations and reports to an employee or Municipality official under its supervision.	Mr. Juan A. Galán Ramirez - Director of Finance	July 31, 2016

Approved by: **Juan A. Galán Ramirez , Finance Director**

Date: **March 31, 2016**

Finding Number	Auditor's Description	Auditor's Recommendation	Corrective Action	Lead Persons Accountable for Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
4	The condition(s) found, including facts that support the deficiency identified in the audit finding. **During our audit we noted that Municipality didn't scheduled the monthly payments checks to 5 property owners. The lapse of time fluctuated from 13 to 24 days after the first 5 days of the month.**	Recommendations to fix the deficiency identified and to prevent future occurrences. **We recommend management to monitor the performance of the housing payments when required, and prepare a payment schedule in order to assure compliance with this requirement.**	All the findings mentioned to this day have been corrected: About the findings Allowable Cost and Hap Payments. 1) These have already been corrected. 2) It will be audited one month in advance when making payment owner so this will not happen again. 3) Mrs. Aixa González was assigned to help Mr. Miguel Diaz in relation to this. 4) The director is going to be following up monthly to the above mentioned.	Miguel Díaz Aixa González Wesley Rivera	Yes	No	March 1, 2016

Approved by: ______________________

Wesley Rivera Cuadro, Director

Date: **March 30, 2016**

Finding Number	Auditor's Description	Auditor's Recommendation	Corrective Action	Lead Persons Accountable for Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
3	The condition(s) found, including facts that support the deficiency identified in the audit finding. **During our audit we noted difference between the contract rent to owner payment and the monthly payment made. From the 90 payments made on May 2015, related to the HAP payments, we noted unreconciled differences in 2 files. In one file the payment was $8.00 in excess of the determined amount, and in the other $14.00 less than the determined amount.**	Recommendations to fix the deficiency identified and to prevent future occurrences. **We recommend management to monitor the housing payments in order to assure that the payments are made in accordance with the payment contract rent to owner.**	All the findings mentioned to this day have been corrected: About the findings Allowable Cost and Hap Payments. 1) These have already been corrected. 2) It will be audited one month in advance when making payment owner so this will not happen again. 3) Mrs. Aixa Gonzalez was assigned to help Mr. Miguel Díaz in relation to this. 4) The director is going to be following up monthly to the above mentioned.	Miguel Díaz Aixa González Wesley Rivera	Yes	Yes, Payment is by the amount of $397.00 and error was paying $405.00 dollars, which are the $8.00 difference. Send Evidence	March 29, 2016

Approved by: ______________________

Wesley Rivera Cuadro, Director

Date: **March 30, 2016**

Finding Number	Auditor's Description	Auditor's Recommendation	Corrective Action	Lead Persons Accountable for Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
2	The condition(s) found, including facts that support the deficiency identified in the audit finding. **During our HQS Enforcement Test we selected a sample of 40 units that didn't pass the inspection and for which and enforcement period was assigned. We noted that the time granted for 4 tenants to correct a deficiency was monitored within ten days and two months after the 30 calendar days period established by the regulation.**	Recommendations to fix the deficiency identified and to prevent future occurrences. **We recommend management to monitor the enforcement inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance.**	In addition with the enforcement: 1) It was assigned to Mrs. Gerena and Mr. Raymond Guzmán for the HQS. 2) HQS has being audited on advance. 3) A list was created with the names of each person who made the HQS. 4) Worksheets were sent out for improvement thereof.	Maribel Gerena Raymond Guzmán Wesley Rivera	Yes	Yes, send	April 1, 2016

Approved by: ______________________

Wesley Rivera Cuadro, Director

Date: **March 30, 2016**

Finding Number	Auditor's Description	Auditor's Recommendation	Corrective Action	Lead Persons Accountable for Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
1	The condition(s) found, including facts that support the deficiency identified in the audit finding. **During our HQS Inspection Test, we noted that 27 units were not inspected annually. The lapse of time between the last two periods of inspections fluctuated from one day to two an half months over the required period for the performance of the annual inspection.**	Recommendations to fix the deficiency identified and to prevent future occurrences. **We recommend management to monitor the performance of the inspections when required, and prepare a schedule of the dates for the visit, in order to assure compliance with this requirement.**	These findings to date have been corrected: 1) We began to audit the records. 2) We added support to the inspectors, Mrs. Maribel Gerena and Mr. Raymond Guzmán. 3) Inspections by route were made to improve efficiency and time. 4) We are doing the inspections within four months in advance. 5) The director is going to be following up to ensure that all these implementations are executed.	Maribel Gerena Raymond Guzmán Wesley Rivera	Yes	No	April 1, 2016

Approved by: ______________________

Wesley Rivera Cuadro, Director

Date: **March 30, 2016**

Finding Number	Auditor's Description	Auditor's Recommendation	Corrective Action	Lead Persons Accountable for Action Item Completion	Deliverable	Evidence Included Yes/No	Target Completion Date
5	The condition(s) found, including facts that support the deficiency identified in the audit finding. **As part of our audit procedures over the monthly submitted reports, Voucher Management System (VMS), we required evidence of how the Administrative Fee Equity and HAP Equity were calculated. The accountant didn't provide a monthly detail that reconciled with the information submitted in the VMS. In addition, the amounts presented in the VMS at June 30, 2015, do not reconcile with the amounts presented in the Financial Data Schedule (FDS).**	Recommendations to fix the deficiency identified and to prevent future occurrences. **We recommend Management to prepare the bank conciliations timely, and reconcile on a monthly basis the HAP and Administrative Fee equity balances and document it.**	We talked with Mr. Miguel Díaz, Accounting and manager VMS report on the problem that exists in the discrepancy as reported. I was ordered that before submitting the VMS to contact HUD to verify the information every month.	Miguel Díaz Wesley Rivera	Yes	No	April 1, 2016

Approved by: ______________________ (signature)
Wesley Rivera Cuadro, Director

Date: March 30, 2016

PLAN DE ACCION CORRECTIVA
OFICINA DE DESARROLLO MUNICIPAL
MUNICIPIO DE ARECIBO

FINDING NUMBER	AUDITOR'S DESCRIPTION	AUDITOR'S RECOMMENDATION	CORRECTIVE ACTION	LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	DELIVERABLE	EVIDENCE INCLUDED YES/NO	TARGET COMPLETION DATE
	As part of our audit procedures over the HOME Program, we verified the two activities related to homeownership assistance. We didn't find in the participants files evidence of the principal residency requirement. In addition, no evidence in writing was included in the files, related to the requirement of continuing affordability.	We recommend Management to provide adequate trainings to the personnel in charge of the determination and documentation of eligibility for the homeownership assistance.	THE MUNICIPAL DEVELOPMENT DEPARTMENT HAS A NEW HOME MANAGER. FROM THIS, WE WORKED WITH A NEW PROCEDURE TO CARRY OUT THE QUALIFICATION OF PARTICIPANTS AND SUBSEQUENT ACTIVITIES BY MONITORS FOR HOMBEBUYER ASSISTANCE.	LUIS CRUZ NIEVES	Yes	NO	JULY 01, 2016 TO JUNE 30, 2017
	As part of our audit procedures over the HOME Program, we selected a sample of three participants for the tenant - based rent assistance (TBRA), which had a population of 7 participants during fiscal year 2014-2015. We noted that the three participants, the required release forms were not signed. In addition, we noted that a participant received an exces of the payment permінted by HUD.As part of our audit procedures over the HOME Program, we selected a sample of three participants for the tenant - based rent assistance (TBRA), which had a population of 7 participants during fiscal year 2014-2015. We noted that the three participants, the required release forms were not signed. In addition, we noted that a participant received an exces of the payment perminted by HUD.	We recommend Management to provide adequate trainings to the personnel in charge of the determination of eligibility and to establish and monitor appropriate internal controls in order to properly document and maintain evidence of inclusion of participants in the waiting list, preferences and subsequent selection in the program.	WITH REGARD TO THE TENANT BASED RENTAL ASSISTANCE, THE HOME PROGRAM HAS ONLY ONE ACTIVE PARTICIPANT. WHEN THE PROGRAM COMPLETE THIS AGREEMENT THE MUNICIPALITY OF ARECIBO, THROUGH THE HOME PROGRAM, WILL NOT LONGER WORK WITH THIS ACTIVITY.	LUIS CRUZ NIEVES	Yes	No	JULY 01, 2016 TO JUNE 30, 2017
	The Municipality did not provide a property records of all the property and equipment acquired with CDBG.	We recommend Municipality to identify all properties acquired with CDBG funds.	PERSONAL PROPERTY WERE THE SAME AS THE REQUESTED updated MANDATORY REQUIREMENTS WITH 24 CFR 85.32 IT WAS GIVEN TO MR. CHRISTIAN CASTRO . The reconciliation process will start working FROM JULY 2016. Began PREPARE A REGISTRATION OF PROPERTY ACQUIRED AND BUILT WITH FUNDS CDBG . IT HAS EVIDENCE FROM 2011 TO 2014 DURING THE NEXT MONTH WILL CONTINUE RISING TO GET EVIDENCE TO DATE YEAR 1994 TO START THE CONVERSION SYSTEM IDIS.	LUIS CRUZ NIEVES	Yes	Yes	December 31, 2016

Approved by:____________________

Date: 31/03/16