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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
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Fiscal Year Ended June 30, 2015

GONZÁLEZ TORRES & CO., PSC
Certified Public Accountants and Consultants
Members of: AICPA, PR Society of CPA and Association of Certified Fraud Examiners

INDEPENDENT AUDITORS' REPORT

Hon. Lornna J. Soto Villanueva and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Canóvanas
Canóvanas, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Canóvanas (the Municipality), Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental activities	Qualified
General fund	Unmodified
Debt service fund	Unmodified
Capital projects fund	Unmodified
Economic development fund	Unmodified
Workforce investment fund	Unmodified
Aggregate remaining fund information	Unmodified

Basis for Qualified Opinion on Governmental Activities

As discussed in Note 1 and Note 12, effective July 1, 2014 the Municipality adopted the provisions of the 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". The implementation of these Statements have a significant impact on the Municipality's government-wide statements by restating the net position at beginning of year, recognition of deferred outflows and inflows of resources in the current year, recording of pension expense, adding new disclosure requirements and required supplementary information. The basis for the implementation was the information provided by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). The ERS provided the information to all employers through the circular letter 1300-23-16, which states that the information was not audited, and subject to change. At June 30, 2015, the Municipality reported as a liability the unaudited amount of $53,514,239 for its proportionate share of the net pension liability. We were unable to satisfy ourselves that such amount is fairly stated in the statement of net position for governmental activities.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities of the Municipality, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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

Other Matters

Required Supplementary Information Omitted

The Municipality has omitted the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality's Contributions to the Employees' Pension Plan, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the information omitted.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 – 23 and 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 supplementary information shown in pages 94 through 95, are presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

San Juan, Puerto Rico
March 31, 2016

González Torres & Co., CPA, PSC

GONZALEZ TORRES & CO., CPA, PSC
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Expires December 1, 2017

The stamp number 2727548
was affixed to the original report

GONZALEZ TORRES & CO. CSP
CONTADORES PÚBLICOS AUTORIZADOS
Lic. 96
PUERTO RICO

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

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

- The Municipality's liabilities and deferred inflow of resources exceeded its assets and deferred outflow of resources (net position-deficit) by $31,088,079 at June 30, 2015. The Municipality's net position decrease by $8,753,417 or 39 percent during the fiscal year ended June 30, 2015; mainly for the excess of expenditures over revenues of $6,721,331 and other net favorable financial changes of $966,911.

- The Municipality's assets and deferred outflow of resources decreased from $77,624,457 at June 30, 2014 to $71,360,883 at June 30, 2015, for a decrease of $6,263,574 or 8 percent.

- The liabilities and deferred inflows of resources of the Municipality increased from $99,959,119 at June 30, 2014 to $102,448,962 at June 30, 2015, for an increase of $2,489,843 or 2 percent. This increase was mainly by an increase of the current liabilities of $1,681,941 and an increase of the pension liability of $2,998,997 or 28 and 6 percent, respectively.

- The revenues of the Municipality decreased from $32,023,215 for the fiscal year ended June 30, 2014 to $28,142,330 for the fiscal year ended June 30, 2015, for a decrease of $3,880,885 or 12 percent.

- The Municipality's expenses increased from $32,659,782 for the fiscal year ended June 30, 2014 to $34,863,661 for the fiscal year ended June 30, 2015, for an increase of $2,203,879 or 7 percent; mainly for the recognition of $3,068,963 related to the Employee's Pension Plan Expense and a net decrease of $865,084 in all other expenses.

Governmental Funds' Highlights:

- The total fund balances of governmental funds decreased from $5,790,863 at June 30, 2014 to $1,655,599 at June 30, 2015, for a decrease of $4,135,264 or 71 percent.

- The total assets of governmental funds decreased from $26,468,042 at June 30, 2014 to $20,515,460 at June 30, 2015, for a decrease of $5,952,582 or 22 percent.

- The governmental fund's total liabilities and deferred inflow of resources decreased from $20,677,179 at June 30, 2014 to $18,859,861 at June 30, 2015, for a decrease of $1,817,318 or 9 percent.

- The total revenues of governmental funds decreased from $31,000,751 for the fiscal year ended June 30, 2014 to $28,142,330 for the fiscal year ended June 30, 2015, for a decrease of $2,858,421 or 9 percent.

- The governmental fund's total expenditures decreased from $35,674,266 for the fiscal year ended June 30, 2014 to $32,277,594 for the fiscal year ended June 30, 2015, for a decrease of $3,396,672 or 10 percent.

- Other financing sources from the proceed of issued bonds of $685,000 in the fiscal year ended June 30, 2014 were not available in the fiscal year ended June 30, 2015, for a decrease of $685,000 or 100 percent in other financing sources.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

a) Government-wide Financial Statements

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

1. Statement of Net Position

The purpose of SNP is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality.

On the other hand, the Municipality reports liabilities, such as claims and judgments, even though these liabilities might not be paid until several fiscal years into the future.

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

2. Statement of Activities

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

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

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

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

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

b) Governmental Fund Financial Statements

The Municipality's GFFS consist of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds, and (3) the statement of revenues and expenditures-budget and actual-budgetary basis fund. These financial statements report the financial position and results of operations of the Municipality's governmental funds, with an emphasis on the Municipality's major governmental funds.

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

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

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

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

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

The Municipality has three major governmental funds. Each major fund is presented in a separate column in the governmental funds' balance sheet and the governmental funds' statement of revenues, expenditures and changes in fund balances. The three major governmental funds are: (1) general fund, (2) debt service fund, and (3) capital improvements bond fund.

c) Notes to Basic Financial Statements

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

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FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Municipality's overall financial position for the last two fiscal years are summarized as follows, based on the information included in the accompanying GWFS:

Comparative Statement of Net Position
Governmental Activities (Condensed)
June 30, 2015 and 2014

	2015	2014 Amended
ASSETS		
Current assets	$ 19,732,020	$ 25,370,825
Capital assets	49,802,279	52,157,671
Total assets	69,534,299	77,528,496
DEFERRED OUTFLOWS OF RESOURCES	1,826,584	95,961
LIABILITIES		
Current and other liabilities	7,775,532	6,093,591
Long-term debt due within one year	4,222,664	4,500,802
Long-term debt due after one year	28,952,395	28,801,811
Pension Liability	53,514,239	50,515,242
Total liabilities	94,464,830	89,911,446
DEFERRED INFLOWS OF RESOURCES	7,984,132	10,047,673
NET POSITION		
Invested in Capital assets, net of related debt	29,248,228	29,348,531
Restricted	5,826,354	4,259,536
Unrestricted (deficit)	(66,162,661)	(55,942,729)
Total net position	$ (31,088,079)	$ (22,334,662)

The Municipality's present an amended Net Position at June 30, 2014, to recognize the net pension liability to present a comparable information at June 30, 2015. The condensed Statement of Activities could not be amended because the information about the pension expense for the fiscal period ended June 30, 2014 is not available.

At June 30, 2015, the Municipality's current assets, amounting to $19,732,020, are mainly composed of cash and cash equivalents ($12,525,979) of which $9,114,027 are restricted, property taxes receivable, net of allowance for doubtful accounts ($2,196,810), construction excise taxes ($331,187) and intergovernmental grants and contributions receivable ($4,677,905).

The restricted cash of $9,114,027 represents resources legally designated for: (1) the payment of debt service, (2) the acquisition, construction and improvement of major capital assets, and (3) the operations of federally and state funded programs. Restricted cash also consists of unspent proceeds of bonds issued to pay accounts payable and certain specific commitments. A portion of property taxes receivable, amounting to $288,195 represents restricted resources set aside to redeem the bonds of the Municipality in minimum annual or biannual principal and interest payments.

The Municipality's capital assets, amounting to $49,802,279 at June 30, 2015, have an aggregate cost basis of $84,826,655, and are reported net of accumulated depreciation and amortization of $35,024,376.

During the fiscal year ended June 30, 2015, the assets and deferred inflow of resources of the Municipality decreased by $6,263,574 or 8 percent in comparison with the prior fiscal year, principally for the following facts:

- Capital assets decreased by $2,355,392 due to the difference of current year additions ($897,609) and depreciation expense ($3,253,001) for the fiscal year ended June 30, 2015. The principal additions to capital assets for the current fiscal year were related to infrastructure ($454,860), building improvements ($250,825), construction in progress ($79,078) and machinery and equipment ($112,846).

- Property taxes receivable decreased by $2,582,883 due to collection efforts.

- Cash in fiscal agent decreased by $3,000,834 mainly for the payment of Long Term Debts.

- Deferred outflow of resources increased $1,826,584 due to the recognition of the Employees Pension Plan deferred outflow of resources.

At June 30, 2015, the Municipality's current liabilities amounting to $7,775,532 are mainly composed of accounts payable and accrued liabilities ($2,185,436), intergovernmental payables ($4,871,077), and accrued interest on notes payable ($719,019). Deferred inflows of resources ($7,984,132) principally consist of unearned revenues associated with municipal license taxes ($4,729,498), unearned property taxes ($1,908,615) and intergovernmental grants and contributions related to state and federally funded programs ($917,776) and the recognition of the Employee Pension Plan deferred inflow of resources ($428,243).

The Municipality's non-current liabilities, amounting to $86,689,298 at June 30, 2015, are mainly composed of portions due within one year ($4,222,664), and portion due in more than one year ($28,952,395) of bonds payable, notes payable, compensated absences, legal claims, sentences payable and other non-current liabilities. Also the Municipality recognized as non-current liability the Employee's Pension Plan Liability of $53,514,239 as required by GASB Statement 68 for the Municipality's proportion in the estimated actuarial liability of the Commonwealth of PR Retirement System.

The liabilities and deferred inflows of resources of the Municipality increased from $99,959,119 at June 30, 2014 to $102,448,962 at June 30, 2015, for an increase of $2,489,843 or 2 percent, for the following reasons.

- Current liabilities increased by $1,681,941 mainly for intergovernmental payables.

- Deferred inflows of resources had a net decrease of $2,063,541, for decrease in unearned property tax of $2,871,078, decrease in unearned intergovernmental grants of $1,616,043, an increase in unearned municipal tax of $1,995,337 and the recognition of a deferred Pension inflow of resources of $428,243.

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial statement position. The Municipality's total liabilities and deferred inflow of resources exceeded total assets and deferred outflow of resources by $31,088,079 for a net position deficit as of June 30, 2015.

As of June 30, 2015, the most significant portion of net position $29,248,228 represents the Municipality's investment in capital assets (e.g. land, buildings, machinery, equipment, infrastructure, etc.), net of all related debt still outstanding that was issued to acquire, construct or improve those assets. The Municipality uses the capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, as capital assets cannot be used to liquidate these liabilities.

Another significant portion of net position at June 30, 2015, represents resources that are restricted for debt service payments $1,913,772, for capital projects $2,578,667 and for other purpose $1,333,915. The remaining component of total net position consists of a deficit in the unrestricted net position, amounting to $66,162,661.

The total net position of the Municipality decrease by $8,753,417 for the fiscal year ended June 30, 2015. Such decrease as previously mentioned are principally due to the excess of expenditures over revenues of $6,721,331.

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The following is a comparative condensed presentation of the Municipality's results of operations as reported in the GWFS:

COMPARATIVE STATEMENT OF ACTIVITIES

GOVERNMENTAL ACTIVITIES (CONDENSED)

JUNE 30, 2015 AND 2014

	2015	2014
Program revenues		
Charge for services	$ 170,047	$ 240,441
Operating grants and contributions	1,214,172	1,177,777
Capital grants and contributions	264,192	2,698,606
General revenue		
Property taxes	12,603,818	13,281,934
Municipality license taxes	4,660,294	7,722,787
Construction excise taxes	624,866	550,309
Sales and us taxes	3,491,320	2,756,029
Unrestricted grans and contributions	4,641,751	2,595,886
Miscellaneous	471,870	999,446
Total revenues	28,142,330	32,023,215
Program expenses		
General government	19,019,925	8,453,318
Urban and economic development	5,244,233	6,133,971
Public safety	1,380,738	9,695,901
Health and sanitation	5,531,169	2,261,083
Culture, recreation and education	837,611	1,672,411
Public housing and welfare	1,411,947	2,897,564
Interest on long term obligations	1,438,038	1,545,534
Total expenses	34,863,661	32,659,782
Change in net position	(6,721,331)	(636,567)
Net position beginning of year	28,180,580	30,666,339
Prior period adjustment - Pension Plan Liability	(50,515,242)	-
Prior period adjustment - Unrecorded Long Term Debts	(2,032,086)	-
Prior period adjustment - other	-	(1,849,192)
Net position end of year	$(31,088,079)	$ 28,180,580

As previously mentioned, the Municipality's net position decreased $8,753,417 during the current fiscal year. Approximately 76 percent ($21,380,298) of the Municipality's total revenues for the current fiscal year came from taxes (property taxes, municipal license taxes, construction excise taxes and sales and use taxes), while 22 percent ($6,120,115) resulted from restricted and unrestricted capital and operating grants and contributions, and other sources provides a 2 percent ($641,917) of total revenues.

There was a decrease of $6,721,331 in the operating results of the current fiscal year. This occurred because, the total expenses $34,863,661 exceeded the total revenues of $28,142,330 during the current fiscal year.

The most significant fluctuations among the current fiscal year revenues and those of the prior fiscal year were as follows:

- Property tax revenues decreased $678,116, Municipal tax revenue decreased $3,062,493 and other sources of revenue decreased $140,276 for a total revenue decrease of $3,880,885.

The Municipality's expenses cover a wide range of services. The largest expenses of the Municipality for the fiscal year ended June 30, 2015 were related to: (1) general administrating and operating costs ($19,019,925), which were classified as "general government", (2) urban and economic development ($5,244,233), (3) health and sanitation ($5,531,169), (4) public safety ($1,380,738), (5) public housing and welfare ($1,411,947), (6) culture, recreation and education ($837,611), and (7) debt service interest ($1,438,038).

The Municipality's expenses increased from $32,659,782 for the fiscal year ended June 30, 2014 to $34,863,661 in the fiscal year ended June 30, 2015, for an increase of $2,203,879 or 6 percent. The most significant fluctuations between the current fiscal year's expenses and those of the prior fiscal year occurred due to the recognition and distribution between the Municipality Departments of a $3,068,963 expense related to the estimated actuarial value of the Employees' Pension Plan as required by GASB Statement 68, and a net decrease of $865,084 in expenses of all other concepts.

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Condensed Balance Sheet – Governmental Funds

June 30, 2015 and 2014

	2015	2014
ASSETS		
Total assets - major governmental funds	$ 17,472,791	$ 22,965,680
Total assets - other governmental funds	3,042,669	3,502,362
Combined total assets	$ 20,515,460	$ 26,468,042
LIABILITIES		
Total liabilities - major governmental funds	$ 10,437,918	$ 8,371,223
Total liabilities - other governmental funds	866,054	1,235,819
Combined total liabilities	11,303,972	9,607,042
DEFERRED INFLOWS OF RESOURCES	7,555,889	11,070,137
FUND BALANCE		
Reserved - major governmental funds	4,992,251	7,354,090
Reserved - other governmental funds	1,333,915	1,320,620
Unreserved - major governmental funds	(4,670,567)	(2,801,776)
Unreserved - other governmental funds	-	(82,071)
Combined total fund balance	1,655,599	5,790,863
Total Liabilities deferred inflows of resources and Fund Balance	$ 20,515,460	$ 26,468,042

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Analysis of Financial Position of Governmental Funds

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

At June 30, 2015, the total assets of governmental funds decreased $5,952,582 or 22 percent in comparison with the prior fiscal year; principally for the decreased of $3,000,834 in cash in fiscal agent. At June 30, 2015, the total liabilities of governmental funds increased $1,696,930 in comparison with the prior fiscal year and deferred outflow of resources decreased $3,514,248.

For a detailed explanation of the individual fluctuations of total assets and total liabilities of governmental funds, please refer to the previous financial analysis of the government-wide financial statements included in this management's discussion and analysis, where a detailed discussion of most of these fluctuations has been made.

At the end of the current fiscal year, total unassigned fund deficits of governmental funds amounted to $4,670,567 (general fund only), while total fund balance reached $1,655,599. The total fund balances decreased by $4,135,264 or 71 percent during the current fiscal year. The following is a detailed financial analysis of the Municipality's governmental funds:

Major Governmental Funds

General fund (GF) – The GF is the principal operating fund of the Municipality. The GF's total assets amounted to $9,175,218 at June 30, 2015. Such assets consist principally of: (1) unrestricted and restricted cash and cash equivalents ($1,777,139), (2) property tax receivable ($1,908,615), (3) intergovernmental grants and contributions receivable ($4,455,201), (4) construction tax receivable ($331,187) and (5) short-term and long-term amounts due from other funds ($703,076).

The GF's total liabilities amounted to $6,632,784 at June 30, 2015. Such liabilities are composed mainly of: (1) intergovernmental payables ($4,854,518), and (2) accounts payable and accrued liabilities ($1,774,970). Deferred inflow of resources amounted to $6,713,189.

At the end of the current fiscal year, unassigned fund deficit of the GF amounted to $4,670,567, and restricted fund balance reached $499,812, for a net deficit of $4,170,755.

Debt service fund (DSF) – The DSF's total assets amounted to $5,377,919 at June 30, 2015, which consists mainly of restricted cash in fiscal agent ($5,089,585) and restricted property taxes receivable ($288,195). The DSF's total liabilities amounted to $3,464,147 at June 30, 2015, which are mainly composed of: (1) matured bonds due and payable ($2,745,000), and (2) matured interest due and payable ($719,019). At the end of the current fiscal year, the DSF's total and restricted fund balance reached $1,913,772.

Capital improvements bond fund (CIBF) – The CIBF's total assets amounted to $2,919,654 at June 30, 2015, which consists mainly of restricted cash in fiscal agent in the amount of $2,915,950. The CIBF's total liabilities amounted to $340,987 at June 30, 2015, which are composed of accounts payable and accrued liabilities ($319,625), and short-term and long-term amounts due to other funds ($21,362). At the end of the current fiscal year, the CIBF's total and restricted fund balance reached $2,578,667.

Other governmental funds (OGF) – The OGF's total assets amounted to $3,042,669, at June 30, 2015, which consists mainly of restricted cash ($2,743,305), receivables from intergovernmental grants and contributions ($222,704) and short-term and long-term amounts due from other funds ($76,660). The OGF's total liabilities amounted to $866,054 at June 30, 2015, which are mainly composed of accounts payable and accrued liabilities ($90,841) and short-term and long-term amounts due to other funds ($758,654). Deferred inflow of resources amounted to $842,700. At the end of the current fiscal year, OGF's total restricted fund balance reached $1,333,915.

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Condensed Statement of Revenues, Expenditures and

Changes in Fund Balances - Governmental Funds (Condensed)

Fiscal Years Ended June 30, 2015 and 2014

	2015	2014
Revenues		
Total revenues - major governmental funds	$ 26,646,866	$ 28,301,971
Total revenues - other governmental funds	1,495,464	2,698,780
Combined total revenues	28,142,330	31,000,751
Expenditures		
Total expenditures - major governmental funds	30,801,565	31,777,776
Total expenditures - other governmental funds	1,476,029	3,896,490
Combined total expenditures	32,277,594	35,674,266
Excess (deficiency) Revenues		
over expenditures	(4,135,264)	(4,673,515)
Other financing sources		
Proceeds from issuance of bonds	-	685,000
Changes in fund balance - net	(4,135,264)	(3,988,515)
Fund Balance beginning of year	5,790,863	11,628,571
Prior period adjustments	-	(1,849,193)
Fund Balance end of year	$ 1,655,599	$ 5,790,863

Analysis of Operating Results of Governmental Funds

Major Governmental Funds

General fund – The total fund balance of the GF decreased $1,984,520 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to $22,686,355, $25,479,632, and $808,757, respectively, for the fiscal year ended June 30, 2015.

Approximately 78 percent ($17,622,027) of the GF's total revenues for the current fiscal year came from taxes, while 20 percent ($4,641,751) resulted from intergovernmental grants and contributions.

During the current fiscal year, there was a deficiency of revenues and other financing sources under expenditures and other financing uses of $1,984,520 in the general fund, while in prior fiscal year there was a deficiency of revenues and other financing sources over expenditures and other financing uses of $1,302,459.

The GF's reported a $1,634,786 decrease among the current fiscal year revenues and those of the prior fiscal year as follows:

- Intergovernmental grants and contributions increased $2,045,865.
- Property taxes revenues decreased $138,691.
- Municipal license taxes revenues decreased $3,062,493.
- All other revenues decreased $479,467.

Fluctuations between the current fiscal year expenditures and those of the prior fiscal was a total net decreased of $371,583.

Debt service fund (DSF) – The total fund balance of the DSF decreased $1,107,215 during current fiscal year. Total revenues, expenditures and other financing uses (net) amounted to $3,761,754, $4,183,038 and ($685,931), respectively, for the fiscal year ended June 30, 2015.

Approximately 81 percent ($3,052,747) of DSF's total revenues for the current fiscal year came from restricted property taxes. There was a decrease of $90,719 in the DSF's net change in fund balance. This occurred mainly, because revenues increased $9,746 and debt service expenditures increased $83,533 and other financial resources decreased $16,932 during the current fiscal year.

Capital improvements bond fund (CIBF) – The total fund balance of the CIBF decreased $1,138,895 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to $198,757, $1,138,895 and ($198,757) respectively, for the fiscal year ended June 30, 2015. The other financing sources of $198,757 for the current fiscal year represents interest earned and transferred to the General Fund.

Other governmental funds (OGF) – The total fund balance of the OGF increased by $95,366 during current fiscal year. Total revenues, expenditures and other financing sources (net) amounted to $1,495,464, $1,476,029 and $75,931, respectively, for the fiscal year ended June 30, 2015.

Approximately 99 percent ($1,478,364) of OGF's total revenues for the current fiscal year came from intergovernmental grants. There was a decrease of $1,203,316 in the OGF's total revenues (mainly on intergovernmental grants), while the total expenditures decrease $2,420,461 mainly in capital expenditures. Other financing sources (net) decreased by $592,624.

BUDGETARY HIGHLIGHTS OF GENERAL FUND

The original and final approved budget of the general fund for the fiscal year ended June 30, 2015 amounted to $21,845,024 and $21,845,024 respectively. Accordingly, there was no changes between the total original and the total final approved budgets for the fiscal year ended June 30, 2015.

The total actual revenues (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were $22,686,355, which is 4 percent ($841,331) more than the budgeted revenues. In addition, the total actual expenditures (budgetary basis) of the general fund for the fiscal year ended June 30, 2015 were $22,942,264 which is 5 percent ($1,097,240) more than the budgeted expenditures. Accordingly, the General Fund net budgetary expenditures over revenues was $255,909. The most significant fluctuation in actual expenditures (budgetary basis) occurred with general government which was $1,733,244 or 11 percent more than the respective budgeted amounts.

The General Fund budget for next fiscal year 2015-2016 was approved in the amount of $21,375,745 for resources and appropriations. This amount represents a decrease of $469,279 or 2 percent under current fiscal year budget basis of $21,845,024; and a decrease of $1,566,519 or 7 percent under current fiscal year actual amounts of charges to appropriations on budgetary basis of $22,942,264.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality has invested $84,826,655 in capital assets used in governmental activities, which have an accumulated depreciation and amortization of $35,024,376 for a net book value of $49,802,279 at June 30, 2015. Capital assets decreased $2,355,393 during the current fiscal year due to the difference of current year additions ($897,609) and depreciation/amortization expense ($3,253,001) for the fiscal year ended June 30, 2015. The principal additions to capital assets for the current fiscal year were related to infrastructure ($454,860), building improvements ($250,825) construction in progress ($79,078) and furniture and equipment ($112,846). The following is a summary of Capital Assets:

Land	$ 2,111,480
Construction in progress	757,856
Building and building improvements	29,309,406
Infrastructure and infrastructure improvements	37,503,995
Licensed vehicles, machinery and equipment	15,143,918
Total cost	84,826,655
Less accumulated depreciation	(35,024,376)
Capital assets, net of depreciation	$ 49,802,279

We encourage readers to consider the information presented here in conjunction with more detailed capital assets information furnished in Note 9 to accompanying financial statements.

Debt Administration

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

At June 30, 2015, the Municipality's total bonded debt amounted to $26,310,000, consisting of bonds and notes payable. Such debt is backed by the full faith and credit of the Municipality

The Municipality's non-current liabilities, amounting to $86,689,298 at June 30, 2015, are mainly composed of portions due within one year ($4,222,664), and portion due in more than one year ($28,952,395) of bonds payable, notes payable, compensated absences, legal claims, sentences payable and other non-current liabilities. Also the Municipality recognized as non-current liability the Employee's Pension Plan Liability of $53,514,239 as required by GASB Statement 68 for the Municipality's proportion in the estimated actuarial liability of the Commonwealth of PR Retirement System.

The following is a summary of the long term debt activity for the fiscal year ended June 30, 2015:

Description	Beginning Balance	Prior Period Adjustment	Borrowings or Additions	Payments or Deductions	Ending Balance
LONG TERM LIABILITIES:					
Bonds Payable	$ 25,845,000	$ -	$ -	$ 1,870,000	$ 23,975,000
Notes Payable - special obligation	-	-	3,025,000	690,000	2,335,000
Notes Payable HUD	3,025,000	-	-	3,025,000	-
Note Payable CRIM (Law 146)	-	-	228,086	12,672	215,414
Advances from CRIM (2014)	-	-	304,001	-	304,001
Installment payment Plan AAA	-	-	255,918	79,678	176,240
Legal case allowance	-	-	50,000	-	50,000
Unfavorable legal sentence (2014)	-	-	1,500,000	350,000	1,150,000
Accrued Christmas Bonus	-	-	395,000	-	395,000
Compensated Absences	4,432,613	-	141,791	-	4,574,404
Sub - total	33,302,613	-	5,899,796	6,027,350	33,175,059
Pension Plan Liability	-	53,514,239	-	-	53,514,239
Total Long Term Liabilities	$ 33,302,613	$ 53,514,239	$ 5,899,796	$ 6,027,350	$ 86,689,298

We encourage readers to consider the information presented here in conjunction with more detailed long-term debt information furnished in Note 11 and 12 to the accompanying financial statements.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The territory of Canóvanas covers an area of approximately 33 square miles. Canóvanas is a Municipality with a population density of 1,451 habitants per square mile. Canóvanas is characterized by being the economic integration center of the Region since it is considered the principal source of jobs and services of commercial, educational and health nature in the Region.

From the industrial perspective, Canóvanas accounts for 17 percent of the manufacturing jobs, 25 percent of the finance-related jobs and 21 percent of the service-related jobs in the region.

Of the total population of the Municipality, 52 percent or approximately 25,200 persons are considered to live under the poverty level. This rate is higher than the overall rate for Puerto Rico (48 percent). Approximately 30 percent of the population of the Municipality, receives public financial assistance as their principal source of income.

The economy of the Municipality is closely linked to the economy of the Commonwealth of Puerto Rico, which ultimately is greatly affected by the condition of the United States of America. Direct investment, exports, transfer payments, interest rates, inflation, and tourist expenditures are exogenous variables that are affected by the economy of the United States of America.

Puerto Rico, including the Municipality, has a diversified economy with manufacturing and services industries comprising its principal sectors. Manufacturing is the largest economic sector in terms of gross domestic product. Manufacturing in Puerto Rico is now more diversified than during the early phases of its industrial development between 1950 and 1980, and includes several industries less prone to business cycles. In the last three decades, industrial development in the Municipality has tended to be more capital intensive and more dependent on skilled labor.

The Municipality has established policies and programs directed at developing the manufacturing and services industries. Selective tax exemptions and other incentives have stimulated domestic and foreign investment. Infrastructure expansion and modernization have been, to a large extent, financed by bonds issued by the Municipality and certain grants from the U.S. Department of Housing and Urban Development and the Federal Emergency Management Agency. Economic progress has been aided by significant increases in the levels of education and occupational skills of the population of the Municipality.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Municipality's finances for all of the Municipality's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Municipality of Canóvanas, Department of Finance and Budget, P.O. Box 945, Canóvanas, Puerto Rico, 00729.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS		**GOVERNMENTAL ACTIVITIES**
Cash and cash equivalents		$ 3,411,952
Cash in fiscal agent - restricted		9,114,027
Accrued interest		139
Accounts receivable:		
Municipal license tax	-	
Construction excise tax	331,187	
Property taxes	2,196,810	
Sales and use taxes	-	
Intergovernmental	4,677,905	
		7,205,902
Capital Assets:		
Land and Construction in Progress	2,869,336	
Other Capital Assets - Net of Depreciation	46,932,943	
		49,802,279
TOTAL ASSETS		69,534,299
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Outflows of resources		1,826,584
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES		$ 71,360,883

The accompanying notes are integral part of the financial statements.

STATEMENT OF NET POSITION (continued)
JUNE 30, 2015

		GOVERNMENTAL ACTIVITIES
LIABILITIES		
Accounts payable and accrued liabilities:		
Accounts payable to suppliers	2,185,436	
Intergovernmental payables	4,871,077	
Matured interest due and payable	719,019	
		7,775,532
Long Term Liabilities:		
Due within one year	4,222,664	
Due in more than one year	28,952,395	
Pension liability	53,514,239	
		86,689,298
DEFERRED INFLOW OF RESOURCES		
Deferred Pension inflow of resources	428,243	
Deferred inflow of resources	7,555,889	
		7,984,132
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES		102,448,962
NET POSITION		
Invested in Capital Assets, Net of Related Debt	29,248,228	
Restricted - Capital Projects	2,578,667	
Restricted - Debt Service	1,913,772	
Restricted - Other Purposes	1,333,915	
Unassigned (deficit)	(66,162,661)	
TOTAL NET POSITION		$ (31,088,079)

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

			PROGRAM REVENUES		
FUNCTIONS / PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES NET REVENUE
GOVERNMENTAL ACTIVITIES:					
General government	$ 19,019,925	$ 170,047	$ -	$ 264,192	$ (18,585,686)
Urban and economic development	5,244,233	-	982,624	-	(4,261,609)
Health and Sanitation	5,531,169	-	-	-	(5,531,169)
Public Safety	1,380,738	-	-	-	(1,380,738)
Public housing and welfare	1,411,947	-	231,548	-	(1,180,399)
Culture, recreation and education	837,611	-	-	-	(837,611)
Interest on long-term obligations	1,438,038	-	-	-	(1,438,038)
Total governmental activities	34,863,661	170,047	1,214,172	264,192	(33,215,250)

GENERAL REVENUES:	
Property taxes	12,603,818
Municipal license taxes	4,660,294
Construction excise taxes	624,866
Sales and use taxes	3,491,320
Intergovernmental grants and contributions	4,641,751
Interest on deposits	413,112
Miscellaneous	58,758
TOTAL GENERAL REVENUES	26,493,919
CHANGES IN NET POSITION	(6,721,331)
Net position - beginning of period, as previously reported	28,180,580
Prior period adjustments - Pension Liability	(50,515,242)
PPA - Unrecorded Loan to CRIM L-146	(228,085)
PPA - Unrecorded CRIM Liquidation 2014	(304,001)
PPA - Unrecorded Judgement Sentence for Construction Taxes	(1,500,000)
Net position - beginning of period, as restated	(24,366,748)
Net position - end of period	$ (31,088,079)

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	GENERAL FUND	DEBT SERVICES FUND	CAPITAL IMPROVEMENT BOND FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents in banks	$ 1,732,586	$ -	$ -	$ 1,679,366	$ 3,411,952
Cash in fiscal agent	44,553	5,089,585	2,915,950	1,063,939	9,114,027
Accounts receivable, net					
Municipal license tax	-	-	-	-	-
Construction excise tax	331,187	-	-	-	331,187
Property taxes	1,908,615	288,195	-	-	2,196,810
Sales and use taxes	-	-	-	-	-
Intergovernmental grants and contributions	4,455,201	-	-	222,704	4,677,905
Due from other funds	703,076	-	3,704	76,660	783,440
Other – miscellaneous	-	139	-	-	139
TOTAL ASSETS	$ 9,175,218	$ 5,377,919	$ 2,919,654	$ 3,042,669	$ 20,515,460
LIABILITIES					
Accounts payable and accrued liabilities:					
Accounts payable to suppliers	$ 1,774,970	$ -	$ 319,625	$ 90,841	$ 2,185,436
Intergovernmental payables	4,854,518	-	-	16,559	4,871,077
Due to other funds	3,296	128	21,362	758,654	783,440
Matured bonds due and payable	-	2,745,000	-	-	2,745,000
Matured interest due and payable	-	719,019	-	-	719,019
TOTAL LIABILITIES	6,632,784	3,464,147	340,987	866,054	11,303,972
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources	6,713,189	-	-	842,700	7,555,889
TOTAL DEFERRE INFLOW OF RESOURCES	6,713,189	-	-	842,700	7,555,889
FUND BALANCES					
Restricted	499,812	1,913,772	2,578,667	1,333,915	6,326,166
Un-assigned (deficit)	(4,670,567)	-	-	-	(4,670,567)
TOTAL FUND BALANCES	(4,170,755)	1,913,772	2,578,667	1,333,915	1,655,599
TOTAL LIABILITIES AND FUND BALANCES	$ 9,175,218	$ 5,377,919	$ 2,919,654	$ 3,042,669	$ 20,515,460

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

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

FOR THE YEAR ENDED JUNE 30, 2015

The amounts of governmental activities reported in the statement of net position and the balance sheet - governmental funds, are different for the following reasons:

Total fund balances reported in the balance sheet - governmental funds		$ 1,655,599
Reconciling items - Add (Deduct):		
Capital assets used in governmental activities are not considered available financial resources, therefore, are not reported in the governmental funds. This is the carrying amount of capital assets, net of accumulated depreciation and amortization.		49,802,279
Deferred Pension outflows of resources		1,826,584
Deferred Pension inflows of resources		(428,243)
Long term liabilities are not due in the current fiscal year, therefore, are not reported in the governmental funds, less current maturity of $2,745,000 which is considered in the governmental funds.	General and Special Obligation Bonds	(21,965,000)
	Notes payable	(1,600,000)
	Long term payment plan with AAA	(176,240)
	Law 146	(215,414)
	MRCC Liquidation 2014	(304,001)
	Retirement System - Pension Liability	(53,514,239)
	Christmas Bonus	(395,000)
	Claims and Judgments	(1,200,000)
	Compensated Absences	(4,574,404)
Net position - governmental activities, as reported in the statement of net position		$ (31,088,079)

The accompanying notes are integral part of the financial statements.
See independent auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

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

REVENUES:	GENERAL FUND	DEBT SERVICES FUND	CAPITAL IMPROVEMENT BOND FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Taxes:					
Property Taxes	$ 9,551,071	$ 3,052,747	$ -	$ -	$ 12,603,818
Municipal license taxes	4,660,294	-	-	-	4,660,294
Construction Excise Taxes	624,866	-	-	-	624,866
Sales and use taxes	2,785,796	705,524	-	-	3,491,320
Intergovernmental grants and contributions	4,641,751	-	-	1,478,364	6,120,115
Interest on deposits	210,872	3,483	198,757	-	413,112
Charges for services	170,047	-	-	-	170,047
Miscellaneous	41,658	-	-	17,100	58,758
TOTAL REVENUES	22,686,355	3,761,754	198,757	1,495,464	28,142,330
EXPENDITURES:					
General government	16,809,712	-	7,074	82,516	16,899,302
Urban and economic development	1,994,296	-	-	1,116,568	3,110,864
Health and Sanitation	4,685,685	-	-	-	4,685,685
Public Safety	783,647	-	-	34,988	818,635
Public housing and welfare	669,941	-	-	241,957	911,898
Culture, recreation and education	485,483	-	-	-	485,483
Debt service:					
Principal	-	2,745,000	-	-	2,745,000
Interest	-	1,438,038	-	-	1,438,038
Capital outlays	50,868	-	1,131,821	-	1,182,689
TOTAL EXPENDITURES	25,479,632	4,183,038	1,138,895	1,476,029	32,277,594
REVENUES OVER(UNDER) EXPENDITURES	(2,793,277)	(421,284)	(940,138)	19,435	(4,135,264)
OTHER FINANCING SOURCES (USES):					
Transfers - in	1,461,390	-	-	122,731	1,584,121
Transfers – out	(652,633)	(685,931)	(198,757)	(46,800)	(1,584,121)
TOTAL OTHER FINANCING SOURCES	808,757	(685,931)	(198,757)	75,931	-
NET CHANGES IN FUND BALANCES	(1,984,520)	(1,107,215)	(1,138,895)	95,366	(4,135,264)
FUND BALANCES, BEGINNING OF YEAR	(2,186,235)	3,020,987	3,717,562	1,238,549	5,790,863
FUND BALANCES, END OF YEAR	$ (4,170,755)	$ 1,913,772	$ 2,578,667	$ 1,333,915	$ 1,655,599

The accompanying notes are integral part of the financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

The amounts of governmental activities reported in the statement of activities and the statement of revenues, expenditures and changes in fund balances - governmental funds, are different for the following reasons:

Net changes in fund balances reported for total governmental funds	$ (4,135,264)
Reconciling items - Add (Deduct):	
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays ($1,182,689) and depreciation expense ($3,253,002) differ in the current period.	(2,070,313)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Pension plan expense	(3,068,963)
Increase in Claims and Judgments	(50,000)
Increase in Compensated Absence	(141,791)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Repayments	2,745,000
Proceeds	-
Net changes in net position reported for governmental activities	$ (6,721,331)

The accompanying notes are integral part of the financial statements.
See independent auditor's report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	BUDGETED AMOUNTS			
				WITH FINAL
			ACTUAL	BUDGET Positive
	ORIGINAL	FINAL	AMOUNTS	(Negative)
REVENUES (inflows):				
Taxes:				
Property Taxes	$ 5,645,856	$ 5,645,856	$ 9,551,071	$ 3,905,215
Municipal license taxes	8,400,000	8,400,000	4,660,294	(3,739,706)
Construction excise taxes	1,000,000	1,000,000	624,866	(375,134)
Sales and use taxes	3,753,717	3,753,717	2,785,796	(967,921)
Charges for services and rent	150,000	150,000	170,047	20,047
Intergovernmental grants	2,029,536	2,029,536	4,641,751	2,612,215
Interest on deposits and investments	400,000	400,000	210,872	(189,128)
Miscellaneous	465,915	465,915	41,658	(424,257)
Amounts available for appropriatior	21,845,024	21,845,024	22,686,355	841,331
EXPENDITURES (out flows):				
General government	14,232,907	15,697,887	17,431,131	(1,733,244)
Urban and economic development	2,530,196	1,919,073	1,691,975	227,098
Public Safety	871,291	826,541	794,233	32,308
Health and sanitation	2,504,293	1,953,143	1,761,280	191,863
Culture, recreation and education	706,473	548,476	514,769	33,707
Public housing and welfare	999,864	899,904	748,876	151,028
Capital outlays	-	-	-	-
Total Charges to Appropriations	21,845,024	21,845,024	22,942,264	(1,097,240)
EXPENDITURES OVER REVENUES	$ -	$ -	$ (255,909)	$ (255,909)

The accompanying notes are integral part of the financial statements.

1. Background Information and Summary of Significant Accounting Policies

The Municipality of Canóvanas (the Municipality) is a local municipal government constituted in 1970 in the Commonwealth of Puerto Rico (the Commonwealth). The Municipality has full legislative, fiscal and all other governmental powers and responsibilities expressly assigned by Public Act No. 81 of August 30, 1991, as amended, known as *Autonomous Municipalities Act of the Commonwealth of Puerto Rico* (Act No. 81). The Municipality is one of seventy-eight municipalities legally separated from the Commonwealth's government.

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

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

a) Financial Reporting Model

The accompanying basic financial statements present the financial position and the results of operations of the Municipality as a whole, and its various governmental funds as of and for the fiscal year ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

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

RSI, consisting of a Management's Discussion and Analysis (MD&A), is information presented along with, but separate from, Municipality's basic financial statements.

MD&A is a narrative report that introduces the accompanying basic financial statements and provides an analytical overview of the Municipality's financial activities for the fiscal year ended June 30, 2015, based on the Municipality's knowledge of the transactions, events and conditions reflected in the basic financial statements. The MD&A also highlights certain key fiscal policies that control the Municipality's operations.

On March 2009, the Municipality adopted the provisions of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55), and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56).

GASB 55 incorporated the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The requirements in this Statement codify all GAAP for state and local governments so that they derive from a single source.

GASB 56 incorporated into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addressed three issues not included in the authoritative literature that establishes *accounting* principles – related party transactions, going concern considerations, and subsequent events.

On July 1, 2012, the Municipality adopted the following two new statements of financial accounting standards issued by the Governmental Accounting Standards Board: (1) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), and (2) Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65).

GASB 63 provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period and deferred inflows of resources which are acquisitions of net position by the government that is applicable to a future reporting period. GASB 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB 63 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term "net assets" is changed to "net position" throughout the financial statements.

GASB 63 also amends the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process.

This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

b) Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal operational units that are under the legal and administrative control of the Mayor, and whose financial resources are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Act No. 81.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14), as amended, has set forth criteria to be considered in determining financial accountability for financial reporting purposes. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of the Municipality to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

On July 1, 2003, the Municipality adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* (GASB No. 39). GASB No. 39 states that certain organizations for which a primary government is not financially accountable nevertheless warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government and its other component units. According to GASB No. 39, a legally separate, tax-exempt organization should be reported as a discretely presented component unit of a reporting entity if all of the following criteria are met:

- 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.

- 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.

- 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 that primary government.

- In addition, GASB No. 39 states that other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. Such types of entities may be presented as either blended or discretely presented component units, depending upon how they meet the criteria for each specified in GASB No. 14.

On July 1, 2011, the Municipality adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amended of GASB Statement No. 14 and No. 34* (GASB No. 61). GASB No. 61 modified certain requirements for inclusion of component units in the financial reporting entity.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations that should be reported as component units of the Municipality for the fiscal year ended June 30, 2015.

c) Government-wide Financial Statements

The accompanying GWFS are composed of: (1) the statement of net position and (2) the statement of activities. These financial statements report information of all governmental activities of the Municipality as a whole. These statements are aimed at presenting a broad overview of the Municipality's finances by reporting its financial position and results of operations using methods that are similar to those used by most private businesses.

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

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

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

- **Invested in capital assets, net of related debt** – This net position category consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of all long-term debt that is specifically attributed to the acquisition, construction or improvement of those assets (capital-related debt), regardless of the type of debt. Pursuant to the provisions of GASB 63, deferred outflows of resources and deferred inflow of resources that are attributable to the acquisition, construction and improvement of those assets is included in this component of net position.

  For the purposes of determining the outstanding debt attributed to capital assets, only the total long-term debt related to the acquisition, construction or improvement of capital assets has been considered in the computation, which is further reduced by any related unspent debt proceeds. Accordingly, all non-capital long-term debts (such as a portion of bonds and notes payable) has been excluded from the computation since were originally issued for certain purposes other than the acquisition, construction or improvement of capital assets.

  In addition, for the purposes of determining the outstanding debt attributed to capital assets, the following items are excluded from the calculation: (1) bond issuance costs, (2) interest payable, (3) accrued interest on deep discount debt and non-capital accrued liabilities (e.g. compensated absences, claims and judgments, etc.), and (4) debt used to finance capital acquisitions by parties outside the Municipality. Furthermore, the computation of net position invested in capital assets, net of related debt, excludes inter-fund loans and other financial assets.

- **Restricted net position** – This net position category consists of net resources restricted by external parties (such as debt covenants, creditors, grantors, contributors, laws or regulations of other governments, etc.), or net position for which constraints are imposed by constitutional provisions or enabling legislation. Enabling legislation consists of legislation that authorizes the Municipality to assess, levy, charge or otherwise mandate payment of resources (from external resource providers). Enabling legislation establishes restrictions if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

  On July 1, 2005, the Municipality adopted the provisions of Statement No. 46, *Net Assets Restricted by Enabling Legislation* (GASB No. 46). This Statement requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. This Statement clarified that a legally enforceable enabling legislation restriction is one that a party external to the Municipality (such as citizens, public interest groups, or the judiciary) can compel the Municipality to honor. This Statement states that the legal enforceability of an enabling legislation should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the Municipality has other cause for consideration. Although the determination that a particular restriction is not legally enforceable may cause the Municipality to review the enforceability of other restrictions, it should not necessarily lead the Municipality to the same conclusion for all enabling legislation restrictions.
  The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often

given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

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

The Municipality has reported the following types of restricted net position in the accompanying statement of net position as of June 30, 2015:

(1) Debt service – Represent net resources available to cover future debt service payments of bonds payable.

(2) Federal and state funded programs – Represent net resources available from certain federal and state grants, which have been set aside to carry out several programs.

- **Unassigned net position** – Generally, this category consists of the excess of assets over related liabilities that are neither externally nor legally restricted, neither invested in capital assets. However, at June 30, 2015, this category has a negative balance of $66,162,661 because liabilities exceeded the related assets. Generally, the assets recorded within this category are designated to indicate that management does not consider them to be available for general operations. Assets reported within this category often have constraints that are imposed by management but can be removed or modified.

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

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

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

The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

General government:

Municipal Legislature
Mayor's Office
Department of Finance and Budget Department of
Human Resources
Department of Municipal Secretary
Department of Internal Audit and Legal Affairs
Department of General Services
Department of Public Relations and Communications

Urban and economic development:

Department of Public Works
Department of Transportation and Mechanics
Public Vehicles Terminal
Department of Planning and Development

Public safety:

Department of Emergency Management
Department of Municipal Police

Health and sanitation

Department of Health - CDT
Department of Recycling and Environment Control
Solid Waste Disposal

Culture, recreation and education:

Department of Recreation and Sports
Department of Cultural Affairs
Department of Tourist Development

Public housing and welfare:

Department of Community Affairs
Department of Youth Affairs
Department of Elderly Services

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

Program revenues are generated directly from a program itself or may come from parties outside the Municipality's taxpayers or citizens. In the statement of activities, program revenues reduce the costs (expenses) of the function/program to arrive at: (1) the net cost of the function/program that must be financed from the Municipality's general revenues or (2) the net program revenue that contributes to the Municipality's general revenues.

The accompanying statement of activities reports the following categories of program revenues for the fiscal year ended June 30, 2015:

- **Charges for services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, charges for licenses and permits, and fines and forfeitures, among others.

- **Program-specific operating and capital grants and contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the GFFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions. The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements. In addition, the Municipality has no operations
or activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

d) Governmental Fund Financial Statements

A fund is a fiscal and accounting entity consisting of a self-balancing set of accounts used to record assets, liabilities and residual equities, deficits or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with GAAP and/or special regulations, restrictions or limitations.

The accompanying GFFS are composed of: (1) the balance sheet – governmental funds, (2) the statement of revenues, expenditures and changes in fund balances – governmental funds and (3) the statement of revenues and expenditures – budget and actual – budgetary basis – general fund.

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

The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. On July 1, 2010, the Municipality adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), which modified the interpretations of certain terms within the definition of the special revenue funds and the types of activities the Municipality may choose to report in those funds. GASB 54 also clarified the capital projects fund type definition for better alignment with the needs of preparers and users. Definitions of other governmental fund types also were modified for clarity and consistency.
Pursuant to the provisions set forth by GASB 54, the Municipality reported the following governmental funds in the accompanying GFFS:

- ***General fund* –** The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities, except for financial resources required to be accounted for in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.

- ***Debt service fund*** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for the accumulation of resources for, and the payment of, principal and interest for: (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. Consistently with the prior fiscal years' financial statement presentation, during the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

  The outstanding balance of general long-term debts for which debt service payments do not involve the advance accumulation of resources, such as notes payable, obligations under capital leases, accrued compensated absences, and the reserve for federal cost disallowances are only accounted for in the accompanying statement of net position. The debt service payments of such debts are generally accounted for as debt service – principal and debt service – interest expenditures in the general fund, except for certain notes payable to HUD, which are accounted for in the HUD Section 108 capital projects fund, a non-major governmental fund.

- ***Special revenue funds*** – The special revenue funds are non-major governmental funds, as defined below, used by the Municipality to account for revenues derived from grants, contributions or other revenue sources that are either self-restricted by the Municipality or legally restricted by outside parties for use in specific purposes (except for revenues that are earmarked for expenditures in major capital projects which are accounted for in the capital projects fund). The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditures for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

- ***Capital projects funds*** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for the financial resources used for the acquisition, construction or improvement of major capital facilities and other assets.

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

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

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

Furthermore, any other non-major governmental fund would be reported as a major governmental fund in the GFFS if such fund is considered of significant interest to regulators or investors of the Municipality, as it is the case of the capital improvements bond fund described below.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying GFFS are: (1) the general fund, (2) the debt service fund, and (3) the capital improvements bond fund.

The capital improvements bond fund is a major capital projects fund used to account for the financial resources arising mainly from bond issuance proceeds used in the acquisition or construction of major capital facilities, other assets and permanent improvements. The most significant transactions of this fund are related to the proceeds on the issuance of bonds.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some internal funds currently used by 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, the following types of similar internal funds have been combined into single funds in the accompanying fund financial statements:

- The various capital improvement bond issues outstanding have been reported as a single major capital projects fund, the capital improvements bond fund.
- Numerous less significant capital project and special revenue funds have been combined into single capital project funds and special revenue funds, respectively.

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

e) Measurement Focus and Basis of Accounting

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

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

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

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

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

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to the Municipality and the provider government requires the Municipality to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these type of transactions, receivables and revenues are generally recorded when all eligibility requirements imposed by the provider have been met. For the majority of grants, the Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.

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

Receipts of any type of revenue sources collected in advance for use in the following fiscal year are recorded as deferred inflows of resources pursuant to the provisions of GASB 63.

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

Governmental fund financial statements – The accompanying GFFS are reported using the current financial resources measurement focus (flow of current financial resources) and the modified accrual basis of accounting. Accordingly, the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds, reports changes in the amount of financial resources available in the near future as a result of transactions and events of the fiscal year reported. Therefore, revenues are generally recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. For this purpose, the Municipality generally considers most revenues (municipal licenses taxes, construction excise taxes, sales and use taxes, interests on deposit, intergovernmental grants and contributions and certain charges for services) to be available if collected within 90 days after June 30, 2015, except for property taxes for which the availability period is 60 days. Revenue sources not meeting this availability criterion or collected in advance are recorded as deferred inflows at June 30, 2015.

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying GFFS, except for amounts recorded as deferred inflows (see note 10).

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

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

Interests on deposits are recorded when earned, as these revenues are considered both measurable and available at June 30, 2015.

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

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

- Principal and interest on bonds and notes payable are recorded when they mature (when payment is due), except for principal and interest of bonds due on July 1, 2015, which are recorded as governmental fund liabilities at June 30, 2015 which is the date when resources were available in the debt service fund.

- Obligations under capital leases, compensated absences, and the reserve for federal cost disallowances are recorded only when they mature (when payment is due).

- Certain accrued liabilities not due and payable (unmatured) or not normally expected to be liquidated in full and in a timely manner with available and expendable financial resources, are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.

- Executory purchase orders and contracts are recorded as a reservation of fund balance in the GFFS.

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.

f) Stewardship, Compliance and Accountability

Budgetary Control

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

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

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

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

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

The Municipality's Department of Finance and Budget has the responsibility to ensure that budgetary spending control is maintained. For day-to-day management control purposes, expenditures plus encumbrances may not exceed budgeted amounts at the expenditure-type level of each cost center (activity within a program within a fund). The Mayor may transfer unencumbered appropriations within programs within funds. The Municipal Legislature may transfer amounts among programs within and among funds.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriation) is at the functions/program level (general government, urban and economic development, public safety, health and sanitation, culture, recreation and education, and public housing and welfare, capital outlays, principal expenditures, interest expenditures, etc.) Within the general and debt service funds, respectively.

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

Budgetary Accounting

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

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

The Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control. Accordingly, expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one fiscal year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment. Unencumbered appropriations and encumbrances lapse at fiscal year-end. Other appropriations, mainly capital projects appropriations, are continuing accounts for which the Municipal Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending.

The accompanying statement of revenues and expenditures – budget and actual – budgetary basis – general fund, provides information about the general fund's original budget, its amendments, and the actual results of operations of such governmental fund under the budgetary basis of accounting for the fiscal year ended June 30, 2015. Further details of the Municipality's budgetary control at the legal level may be obtained from the Budgetary Liquidation Report for the fiscal year ended June 30, 2015, which is prepared by the Municipality's Department of Finance and Budget. Copies of that report may be obtained by writing to the Municipality's Director of Finance and Budget at P.O. Box 1612, Canóvanas Puerto Rico 00729-1612.

Because accounting principles applied for the purposes of the developing data on a budgetary basis differ significantly from those used to present the governmental fund financial statements in conformity with GAAP, a reconciliation of the differences between the general fund's budgetary basis and GAAP actual amounts is presented as follows:

Deficiency of revenues and other financing sources under expenditures and other financing uses - budgetary basis - general fund	$	(255,909)
Basis of accounting differences (net changes in the following assets and liabilities):		
Restricted Cash		(29,481.00)
Property taxes receivable		(2,871,078.00)
Municipal license taxes receivable		(610,869.00)
Sales and use taxes receivable		(250,957.00)
Intergovernmental receivables		1,926,912.00
Miscellaneous receivables		(54,265.00)
Due and advances from other funds		(385,033.00)
Deferred inflows of resources		3,328,954.00
Accounts payable and accrued liabilities		256,181.00
Intergovernmental payables		(2,230,218.00)
Other financial resources		(808,757.00)
Excess of revenues and other financing sources over expenditures and other financing uses - general fund - GAAP basis	$	(1,984,520)

g) Unrestricted and Restricted Deposits

The Municipality's deposits at June 30, 2015 are composed of: (1) demand deposits in commercial banks (2) demand deposits in the Government Development Bank for Puerto Rico (GDB, fiscal agent). and (3) cash equivalents consisting of two certificates of deposits in commercial banks of $1,000,000, with original maturities of three months or less. Cash equivalents are recorded at amortized cost, which approximates fair value.

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

Cash in fiscal agent in the debt service funds includes property tax collections amounting to $5,089,585, which are restricted for the payment of the Municipality's debt service, as required by law. Cash with fiscal agent of $44,553 in the general fund also includes unspent proceeds of bonds that are restricted for the acquisition of certain minor capital assets and the payment of certain accounts payable. Cash with fiscal agent recorded in the capital improvements bonds funds consists of unspent proceeds of bonds and notes and the balance of interests bearing accounts amounting to $2,915,950, which is restricted for the acquisition, construction, or improvements of major capital assets. Cash with fiscal agent recorded in the non-major governmental funds consists principally of unspent proceeds of bonds and the balance of interest and non-interest bearing accounts amounting to $1,063,939 which are restricted for the acquisition, construction, or improvements of major capital assets.

Cash in commercial banks for other governmental funds, amounting to $1,679,366, represents the balance of interest and non-interest bearing accounts restricted to finance the operations of various federal and state funded programs.

h) Accounts and Notes Receivable

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

Activities among governmental 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans), as applicable. All other outstanding balances between funds are reported as "due to/from other funds".

On July 1, 2007, the Municipality adopted the provisions of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB No. 48). This Statement establishes standards for the measurement, recognition, and display of transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments, generally, a single lump sum. GASB No. 48 provides technical guidance to determine whether this type of transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This criteria is used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. Accordingly, GASB No. 48 establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

GASB No. 48 also provides guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. According to the criteria set forth by GASB. No. 48, there were no transactions involving receivables that should be reported as a sale as of and for the fiscal year ended June 30, 2015, therefore, the adoption of GASB No. 48 had no effect in the accompanying basic financial statements.

i) Inventories and Other Current Assets

Inventories consist of construction materials and inventories of office supplies, food and medicines, which are held for consumption. Other current assets consist of prepaid costs. Generally, inventories are capitalized and stated at cost using the first-in, first-out method (FIFO) in the GWFS. Inventories and prepaid expenses in the GFFS are generally recorded as expenditures (purchase method) when purchased (paid) rather than capitalized as an asset.

j) Capital Assets

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

For financial reporting purposes, the Municipality defines capital assets as assets with an individual cost of $500 or more at the date of acquisition, construction or improvement, and with useful lives extending beyond one year. All assets with individual costs under $500 or with useful lives not exceeding one year, are charged directly to expense in the government-wide statement of activities. In the governmental funds, all capital assets are recorded as capital outlays (expenditures).

In the statement of net position, all capital assets are recorded at cost or estimated historical cost if actual cost was unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation. Estimated historical costs based on deflated current costs were used to value a significant portion of the infrastructure constructed or acquired prior to June 30, 2002 and certain lands, buildings, structures and building improvements. The method used to deflate the current costs with an approximate price index was used only in the case of certain items for which the historical cost documentation was not available. Actual historical costs were used to value the infrastructure acquired or constructed after June 30, 2002 as well as, construction in progress, machinery and equipment and licensed vehicles acquired prior or after such date.

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

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

	Years
Land improvements	20
Buildings, structures and building improvements	30 to 50
Infrastructure	10 to 20
Motor vehicles	8
Furniture and fixtures	5 to 15
Machinery and equipment, excluding those held under capital leases	5 to 15
Machinery and equipment under capital leases	3 to 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 functions/programs but reported as direct expenses of the urban and economic development function.

k) Deferred Inflows of Resources

In the GFFS, Deferred inflows of resources arise when the Municipality receives resources before it has a legal claim to them (unearned revenue). In subsequent periods, when the revenue recognition criterion is met, the deferred inflows of resources is removed and revenue is recognized.

l) Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences,* issued by GASB (GASB No. 16). Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. The liability for compensated absences recorded in the accompanying statement of net position is limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015 and (2) is not contingent on a specific event that is outside the control of the Municipality and the employee (such as illness). Compensated absences that relate to future services or are contingent on a specific event outside the control of the employer or the employee are accounted for in the period when those services are rendered or those events take place.

The liability for compensated absences includes salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes and Medicare taxes).

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

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

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

m) Long-term Debt

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the accompanying statement of net position. Principal and interest payments on bonds due on July 1, 2015 are recorded as governmental fund liabilities in the GFFS (debt service fund) when resources are available in the debt service fund (June 30, 2015). In the GFFS, the face amount of debt issued (gross debt reported) is reported as other financing sources when issued.

In the GWFS debt issuance costs are reported as deferred charges, which are amortized under the straight-line method over the life of the debt, while in the GFFS such costs are recognized as expenditures during the current period.

Non-interest bearing notes payable are accounted at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes. The discount is amortized over the life of the notes using the effective interest method. Amortization of the notes discount is recorded as part of interest expense in the statement of activities. In the GFFS, notes discount is recognized as other financing uses during the current period.

n) Leases

The Municipality classifies its lease agreements either as operating or capital leases. Capital lease agreements are generally non-cancelable and involve, substance over form, the transfer of substantially all benefits and risks inherent in the ownership of the leased property, while operating leases do not involve such transfer. Accordingly, a capital lease involves the recording of an asset and a related lease obligation at the inception of the lease. The Municipality classifies a lease agreement as a capital lease if at its inception the lease meets one or more of the following four criteria:

- By the end of the lease term, ownership of the leased property is transferred to the Municipality.
- The lease agreement contains a bargain purchase option.
- The lease term is substantially equal (75 percent or more) to the estimated useful life of the leased property.
- At the inception of the lease, the present value of the minimum lease payments, with certain adjustments, is 90 percent or more of the estimated fair value of the leased property.

Although the Municipality is prevented legally from entering into obligations extending beyond one fiscal year, most capital lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. Leases that meet at least one of the aforementioned four criteria and have a fiscal funding or a cancellation clause have been recorded as capital leases in the accompanying GWFS, since the likelihood of invoking the provision is considered remote. The Municipality's lease agreements do not include contingent rental payments or escalation clauses.

In the GWFS, the obligation under capital leases is recorded at the lesser of the estimated fair value of the leased property or the present value of the minimum lease payments, excluding any portion representing executory costs and profit thereon to be paid by the leaser. A portion of each minimum lease payment is allocated to interest expense and the balance is applied to reduce the lease obligation using the effective interest method.

In the GFFS, the net present value of the minimum lease payments at the inception of the capital lease is recorded simultaneously as: (1) expenditures and (2) other financing sources. Minimum lease payments are recorded as expenditures in the GFFS.

o) Accounting for Pension Costs and Post-Employment Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipality and additions to/deductions from Municipality's fiduciary net position have been determined on the same basis as they are reported by the Municipality. 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.

In June of 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans (GASB 67). This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which:

i. Contributions from employers and nonemployees contributing entities to the pension plan and earnings on those contributions are irrevocable.

ii. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

iii. Pension plan assets are legally protected from the creditors of employers, nonemployees 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 defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployees contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered.

GASB 67 replaces the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50,

Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 25 and GASB 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

In June of 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

i. Contributions from employers and nonemployees contributing entities to the pension plan and earnings on those contributions are irrevocable.

ii. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

iii. Pension plan assets are legally protected from the creditors of employers, nonemployees 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.

The requirements of GASB 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts that meet certain criteria and to the financial statements of state and local governmental nonemployees contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should 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 pensions also are addressed.

GASB 68 replaces the requirements of GASB 27 and GASB 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 27 and GASB 50 remain applicable for pensions that are not covered by the scope of this Statement.

For the purpose of applying the requirements of GASB Statements No. 67 *Financial Reporting for Pension Plans*, and 68 *Accounting and Financial Reporting for Pensions,* the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and Its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) establishes new accounting and financial reporting requirements for the measurement, recognition, and display of expense/expenditures and related liabilities/assets of post-employment benefits other than pensions (OPEB), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local government employers. At June 30, 2015, there were no OPEB plans adopted by the Municipality. Accordingly, during the fiscal year ended June 30, 2015, the Municipality did not incur in any post-employment benefits costs other than pensions, therefore, the adoption of GASB No. 75 had no effect in the accompanying basic financial statements. This Statement replaces requirements of GASB No. 45.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipality and additions to/deductions from Municipality's fiduciary net position have been determined on the same basis as they are reported by the Municipality. 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.

p) Risk Management

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

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

The Municipality obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Workers' compensation insurance premiums are also paid through monthly deductions made by CRIM from the Municipality's gross property tax collections.

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

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

q) Fund Balances

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

Fund balances in the accompanying basic financial statements are as follows based on the relative strength of the constraints that control how specific amounts can be spent:

Nonspendable – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The not in spendable form criteria includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.

Restricted – Represent net resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers. In the accompanying basic financial statements, restricted fund balances have been reported in the following funds and for the following purposes:

Debt service fund – restricted fund balance consist of financial resources available only to cover future debt service payments (principal and interest) on bonds payable, which are accounted for in the debt service fund, as required by Law.

Capital improvements bond fund – restricted fund balance consist of financial resources to be used only for the acquisition, construction or improvement of capital assets under contracts and other commitments, as approved and financed by the Government Development Bank for Puerto Rico.

Other governmental funds – restricted fund balance consist of financial resources arising from operating and capital grants and contributions from state and federal grantors that can be spent only for the specific purposes stipulated by the respective external resource providers, or through enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Represent net resources recorded in the general fund intended to be used by the Municipality for specific purposes but do not meet the criteria to be classified as restricted or committed (generally executive orders approved by the Mayor). Intent can be expressed by the Municipal Legislature, the Mayor or by an official or body to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Act of Puerto Rico, as amended. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned – Represent the residual classification for the Municipality's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Municipality had no fund balances classified as *nonspendable*, *committed* or *assigned* at June 30, 2015.

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

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

The classification of the Municipality's individual governmental funds among general, debt service, special revenue and capital project fund types used in prior fiscal years for financial reporting purposes was not affected by the implementation of GASB 54. In addition, the financial positions and the results of operations reported in the accompanying GFFS as of and for the fiscal year ended June 30, 2015 have not been affected for this change in accounting principle. Accordingly, the accompanying GFFS have not reported any retroactive restatements or reclassifications of fund equities as of June 30, 2015.

r) Inter-fund Activities

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

- ***Inter-fund loans*** – Represent amounts provided with a requirement for repayment, which are recorded as "due from" in the lender governmental fund and "due to" in the borrower governmental fund. Inter-fund receivables, which are not considered to be currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period of time, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as an operating transfer from the governmental fund that made the loan.

- ***Inter-fund transfers*** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Inter-fund transfers are reported as other financing sources in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.

- ***Inter-fund reimbursements*** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

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

s) Use of Estimates

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

t) Future Adoption of Accounting Pronouncements

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

GASB – 72- Fair Value Measurement and Application (issued February 2015)

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. This Statement generally requires investments to

be measured at fair value and requires measurement at acquisition value for donated capital assets, donated works of art, historical treasures and similar assets and capital assets received in a service concession arrangement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, earlier application is encouraged.

GASB – 73 - Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement 68, and amendments to certain provisions of GASB Statements 67 and 68

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.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

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

- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployees contributing entities for defined benefit pensions

- Timing of employer recognition of revenues for the support of nonemployees contributing entities not in a special funding situation

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployees 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 pensions plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB – 74- Financial Reporting for Postemployment Benefit Plans other that Pension Plans

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, as amend, 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 Statements 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 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB – 75- Accounting and Financial Reporting for Postemployment Benefits other than Pensions

This Statement replaces the requirements of Statements No. 45 and No. 57. 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.

This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB – 76- The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

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 requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Early application is permitted.

GASB – 77- Tax Abatement Disclosures

This Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

2. Deposits

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

On July 1, 2004, the Municipality adopted the provisions of GASB Statement No. 40 (GASB No. 40), *Deposit and Investment Risk Disclosure, an Amendment to GASB Statement No. 3.* This statement requires that state and local governments disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas: (1) credit risk, (2) interest rate risk, (3) custodial credit risk, and (4) foreign exchange exposure.

- **Credit risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico, issued by the Government Development Bank for Puerto Rico* as promulgated by Law No. 113 of August 3, 1995. Accordingly, the Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2015 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of $250,000 per depositor. 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.

- **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 and certificates of deposit in interest bearing accounts generating interest at prevailing market rates. At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

- **Custodial credit risk** – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico,* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of $250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB, amounting to $9,114,027 at June 30, 2015, are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

  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.

- **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.

Cash and cash equivalents at June 30, 2015, are classified in the accompanying balance sheet – governmental funds a follows:

Cash in commercial banks	$1,732,586	$ -	$ -	$1,679,366	$ 3,411,952
Cash in GDB, as fiscal agent	44,553	5,089,585	2,915,950	1,063,939	9,114,027
Total deposits	$1,777,139	$5,089,585	$2,915,950	$2,743,305	$12,525,979

3. Municipal License Taxes

The Municipality is authorized by Act No. 81 to impose and collect municipal license taxes to any natural or legal person having trade or business activities within the territory of Canóvanas. This is a self-assessed tax generally based on the business volume of taxpayers, measured by gross revenues. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal license tax rates imposed by the Municipality were 1.50 percent for financial institutions and 0.50 percent for other types of taxpayers. Any taxpayers that have been granted with a partial tax exemption under any of the tax incentive acts of the Commonwealth ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

Each taxpayer must assess the corresponding municipal license tax by declaring the volume of business through a tax return to be filed five labor days after every April 15, based on the actual volume of business (revenues) generated in the preceding calendar year. Taxpayers with a sales volume of $3 million or more must include audited financial statements with their tax return filings. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration. The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration, a 5 percent discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as deferred inflows of resources in the GWFS and the GFFS. No municipal license tax receivable was reported at June 30, 2015. Deferred inflows of resources related to municipal license tax revenues recorded in the accompanying GWFS and the general fund amounted to $4,729,498 at June 30, 2015.

4. 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 1 of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business or (2) owns residential real property with a value in excess of $15,000 (at 1957 market prices).

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 (lien; levy date) and reporting such taxable value through a personal property tax return filed on May 15 (due date and collection date) subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.83 percent (of which taxpayers pay 6.63 percent and the remaining 0.20 percent is paid by the Department of Treasury, as a subsidy.

Real property taxes are assessed every January 1 (lien; levy date) and is based on estimated current values of the property, deflated to 1957 market prices. Real property taxes a due and collectible on January 1 and July of every fiscal year. The total real property tax rate in force at June 30, 2015 was 8.83 percent (of which 8.63 percent is paid by taxpayers and the remaining 0.20 percent is also paid by the Department of Treasury, as a subsidy.

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

Included within the total personal and real property tax rates of 6.83 percent and 8.83 percent, respectively, there is a portion of the tax rate in the amount of 1.40 percent that is restricted for the Municipality's debt service requirements on bonds. Such amounts are recorded in the Municipality's debt service fund.

The composition of property taxes receivable and the related deferred inflows is as follows at June 30, 2015:

	General fund	Debt service fund	Total
Property taxes receivable	$ 1,908,615	$ 288,195	$ 2,196,810
Deferred (earned and unavailable) - property tax revenues in GFFS (note 10)	$ 1,908,615	$ -	$ 1,908,615

5. Sales and Use Taxes

The Municipality imposes a sales and usage tax within the territorial limits of the Municipality pursuant to the Internal Revenue Code of the Government of Puerto Rico. This is a self-assessed tax consisting of one and a half percent (1.5%) on the sale price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item, as defined in the Puerto Rico Internal Revenue Code, as amended. The tax is assessed and collected on a monthly basis through a tax return filed by each business classified as tax withholding agent.

The sales and use tax revenues amounted to $3,491,320 for the fiscal year ended June 30, 2015, which has been recorded in the general fund since is available for general operating purposes. No sales and use taxes receivable is reported at June 30, 2015.

6. Construction Excise Taxes

The 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 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, project design and other engineering fees, licenses and permits, legal and accounting fees, and most marketing and advertising costs. The tax is paid by the taxpayer at the beginning of the project.

All single-family residential construction projects not related to housing development projects, condominiums, or any similar projects, are partially exempt from construction excise taxes. In addition, a portion of all single-family residential improvement projects are exempt from construction excise taxes. All projects carried out on buildings and structures classified as historical treasures by the Puerto Rico Planning Board have an in the tax rate applicable to construction excise taxes.

Construction excise tax revenues amounted to $331,187 for the fiscal year ended June 30, 2015, which has been recorded in the general fund as it is available for general operating purposes.

7. Intergovernmental Receivables and Payables

Intergovernmental receivables and payables recorded in the accompanying GWFS and GFFS are as follows at June 30, 2015:

Intergovernmental receivables:	General Fund	Other Governmental Funds
PR Electric Energy Authority	$4,380,126	$ -
PR Treasury Department - Christmas bonus reimbursement	75,075	-
US Department of Housing and Urban Development	-	201,924
	-	20,780
Total intergovernmental receivables	$ 4,455,201	$ 222,704
Intergovernmental payables:		
PR Electric Energy Authority	$4,380,126	$ -
PR Aqueduct and Sewer Authority	225,458	-
PR Treasury Department	4,143	-
Commonwealth of Puerto Rico Employees Association	104,610	-
Employee Retirement System	140,181	-
US Department of Health and Human Services	-	734
US Department of Housing and Urban Development	-	15,825
Total intergovernmental payables	$4,854,518	$ 16,559

8. Inter-fund Transactions

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.

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

Due from	GENERAL FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL Due To
General Fund	$ -	$ -	$ 3,296	$ -	$ 3,296
Debt Service Fund	$ 128	$ -	$ -	$ -	$ 128
Capital Activities Fund	$ 21,362	$ -	$ -	$ -	$ 21,362
Other Governmental Funds	$ 681,586	$ -	$ 408	$ 76,660	$ 758,654
Total Due From	$ 703,076	$ -	$ 3,704	$ 76,660	$ 783,440

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.

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

Transfers In	GENERAL FUND	DEBT SERVICE FUND	CAPITAL ACTIVITIES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL Transfer Out
General Fund	$ 529,902	$ -	$ -	$ 122,731	$ 652,633
Debt Service Fund	685,931	-	-	-	685,931
Capital Activities Fund	198,757	-	-	-	198,757
Other Governmental Funds	46,800	-	-	-	46,800
Total Transfer In	$ 1,461,390	$ -	$ -	$ 122,731	$ 1,584,121

9. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2015 is as follows:

Description	Balance 30-Jun-14	Increase	Decrease	Adjustments	Balance 30-Jun-15
Capital assets, not being depreciated:					
Construction in progress	678,778	784,763	705,685	-	757,856
Infrastructure Land	2,111,480	-	-	-	2,111,480
Total non depreciable assets	2,790,258	784,763	705,685	-	2,869,336
Capital assets, being depreciated:					
Buildings, structures and improvements	29,058,581	250,825	-	-	29,309,406
Infrastructure	34,839,044	454,860	-	-	35,293,904
Land improvements	2,210,091	-	-	-	2,210,091
Licensed vehicles	9,665,170	-	-	-	9,665,170
Furniture, fixtures, machinery and equipment	5,160,657	112,846	-	-	5,273,503
Machinery and equpment - capital lease	205,245	-	-	-	205,245
Total Depreciable Assets	81,138,788	818,531	-	-	81,957,319
Total Capital Assets	83,929,046	1,603,294	705,685	-	84,826,655
Less accumulated depreciation for:					
Buildings, structures and improvements	6,895,396	653,918	-	-	7,549,314
Infrastructure	11,445,336	2,016,711	-	-	13,462,047
Land improvements	1,890,110	71,022	-	-	1,961,132
Licensed vehicles	8,411,721	54,763	-	-	8,466,484
Furniture, fixtures, machinery and equipment	2,923,567	456,587	-	-	3,380,154
Machinery and equipment - capital lease	205,245	-	-	-	205,245
Total accumulated depreciation	31,771,375	3,253,001	-	-	35,024,376
Total capital assets being depreciated, net	49,367,413	(2,434,470)	-	-	46,932,943
Governmental activities Capital Assets net	52,157,671	(1,649,707)	705,685	-	49,802,279

Depreciation expense was charged to functions in the accompanying government – wide statement of activities as follows for the fiscal year ended June 30, 2015:

DEPRECIATION EXPENSE

Activity	Amount
General government	$ 406,625
Public safety	247,228
Public housing and welfare	240,722
Health and sanitation	471,685
Urban and economic development	1,694,813
Culture, recreation and education	191,928
Total depreciation and amortization expenses	$ 3,253,001

10. Deferred Inflows of Resources

At June 30, 2015, deferred inflows of resources recorded in the GWFS and the GFFS are as follows:

General Fund	
Property taxes	$1,908,615
Municipal license taxes	4,729,498
Intergovernmental grants and contributions	75,076
Total General Fund	$6,713,189
Other Governmental Funds	
State Legislative joint resolutions	$ 396,532
Law No. 2 program	259,201
ACUDEM – Child care	102,164
Elderly program	31,700
Permanent improvements fund	24,535
All other miscellaneous programs	28,568
Total Other Governmental Funds	$ 842,700
Total Deferred Inflow of Resources	$7,555,889

11. Long-term Obligations

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

Description	Beginning Balance	Borrowings or Additions	Payments or Deductions	Ending Balance	Due within One Year
NONCURRENT LIABILITIES					
Bonds Payable	$ 25,845,000	$ -	$ 1,870,000	$ 23,975,000	$ 2,010,000
Notes Payable - special obligation	-	3,025,000	690,000	2,335,000	735,000
Notes Payable HUD	3,025,000	-	3,025,000	-	-
Note Payable CRIM (Law 146)	-	228,086	12,672	215,414	12,671
Advances from CRIM (2014)	-	304,001	-	304,001	304,001
Installment payment Plan AAA	-	255,918	79,678	176,240	140,992
Legal case allowance	-	50,000	-	50,000	-
Unfavorable legal sentence (2014)	-	1,500,000	350,000	1,150,000	300,000
Accrued Christmas Bonus	-	395,000		395,000	395,000
Compensated Absences	4,432,613	141,791	-	4,574,404	325,000
Total	$ 33,302,613	$ 5,899,796	$ 6,027,350	$ 33,175,059	$ 4,222,664

Historically, the general fund has been used to liquidate certain notes payable, compensated absences, obligations under capital leases, federal cost disallowances and any other long-term liabilities other than bonds.

a) Debt Limitation

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

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

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

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.

b) Bonds and Notes Payable

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

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

As described in Note 4, the Municipality levies an annual additional special tax of 1.80 percent of the assessed value of personal and real property. The proceeds of this additional special tax are deposited in a sinking fund established at GDB whereby sufficient funds are set aside to redeem the bonds payable of the Municipality in minimum annual or semiannual principal and interest payments. The collections of this special tax are recorded in the Municipality's debt service fund.

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

Public Improvement Bonds:	**Outstanding amount**
2005 serial bonds for the acquisition of major capital assets, original amount of $3,115,000, due in annual principal installments ranging from $145,000 to $285,000; plus interests due in semiannually installments at variable rates (4.36% at June 30, 2013) through July 1, 2019	$ 1,295,000
2009 serial bonds for the acquisition of major capital assets, original amount of $1,450,000, due in annual principal installments ranging from $165,000 to $260,000; plus interests due in semiannually installments at variable rates (4.75% at June 30, 2013) through July 1, 2015	260,000
2009 serial bonds for the acquisition of major capital assets, original amount of $4,990,000, due in annual principal installments ranging from $75,000 to $420,000; plus interests due in semiannually installments at variable rates (4.75% at June 30, 2013) through July 1, 2033	4,455,000
Total public improvements bonds	6,010,000
General Obligation Bonds:	
2001 serial bonds for the acquisition of major capital assets, original amount of $5,500,000, due in annual principal installments ranging from $75,000 to $475,000; plus interests due in semiannually installments at variable rates (4.61% at June 30, 2013) through July 1, 2026	3,885,000
2007 serial bonds for working capital and the payment of accounts payable to suppliers, original amount of $1,560,000, due in annual principal installments ranging from $110,000 to $215,000; plus interests due in semiannually installments at variable rates (1.61% at June 30, 2013) through July 1, 2016	410,000
2009 serial bonds for working capital and the payment of accounts payable to suppliers, original amount of $1,845,000, due in annual principal installments ranging from $130,000 to $255,000; plus interests due in semiannually installments at variable rates (4.75% at June 30, 2013) through July 1, 2018	905,000

2011 serial bonds for working capital and the payment of accounts payable to suppliers, original amount of $1,835,000, due in annual principal installments ranging from $70,000 to $200,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2025	1,525,000
2011 serial bonds for the acquisition of major capital assets, original amount of $6,070,000, due in annual principal installments ranging from $110,000 to $530,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2032	5,555,000
2012 serial bonds for the acquisition of major capital assets, original amount of $5,355,000, due in annual principal installments ranging from $380,000 to $725,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2021	4,135,000
2012 serial bonds for the acquisition of major capital assets, original amount of $465,000, due in annual principal installments ranging from $20,000 to $55,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2027	425,000
2012 serial bonds for the acquisition of major capital assets, original amount of $505,000, due in annual principal installments ranging from $20,000 to $55,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2037	490,000
2014 serial bonds for the acquisition of major capital assets, original amount of $685,000, due in annual principal installments ranging from $20,000 to $55,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2023	635,000
Total general obligation bonds	17,965,000
Total bonds payable	23,975,000

Notes Payable:

2010 special obligation note for $2,475,000 as per resolution 13 serial 2009-2010, guaranteed with sales and use tax funds, due in annual principal installments ranging from $285,000 to $430,000; plus interests due in semiannually installments at variable rates (4.75% at June 30, 2013) through July 1, 2016	830,000
2012 special obligation note for $2,380,000 as per resolution 67 serial 2011-2012, guaranteed with sales and use tax funds, due in annual principal installments ranging from $270,000 to $420,000; plus interests due in semiannually installments at variable rates (6.00% at June 30, 2013) through July 1, 2018	1,505,000
Total notes payable	2,335,000
Total bonds and notes payable	$ 26,310,000

Variable interest rates on serial 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 United States of America, (2) in the Eurodollar market, and (3) to corporations having tax exemptions under the Commonwealth's Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the U.S. Internal Revenue Code.

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

Fiscal year ending June 30,	**Principal**	**Interest**	**Total**
2016	$ 2,010,000	$ 1,263,666	$ 3,273,666
2017	1,870,000	1,247,489	3,117,489
2018	1,795,000	1,228,433	3,023,433
2019	1,920,000	1,134,453	3,054,453
2020	1,785,000	1,022,763	2,807,763
2021-2025	6,765,000	5,797,175	12,562,175
2026-2030	4,580,000	1,954,406	6,534,406
2031-2035	3,130,000	481,875	3,611,875
2036-2040	120,000	14,251	134,251
Totals	$23,975,000	$14,144,511	$38,119,511

At June 30, 2015, accrued interest payable on bonds amounted to $654,219

According to sections 103 and 148 to 150 of the U.S. Internal Revenue Code and sections 1.148 to 1.150 of the U.S. Treasury Regulation, the Municipality's the 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.

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

Fiscal year ending June 30,	**Principal**	**Interest**	**Total**
2016	$ 735,000	$ 110,175	$ 845,175
2017	790,000	69,613	859,613
2018	390,000	36,900	426,900
2019	420,000	12,600	432,600
Totals	$ 2,335,000	$ 229,288	$ 2,564,288

At June 30, 2015, accrued interest payable on notes amounted to $64,863.

Interest expense and interest paid on bonds and notes payable amounted to $1,438,038, for the fiscal year ended June 30, 2015.

c) Notes Payable to U.S. Department of Housing and Urban Development

This liability was refinanced with Special Obligation Notes Payables through the PR Governmental Development Bank.

d) Note Payable CRIM (Law 146)

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and CRIM to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The original amount of debt is $316,822 to be paid during 25 years, until March 2032, plus annual interest of 2.504%. Balance due as of June 30, 2015 is $215,414.

e) Advances CRIM (2014)

Throughout the year, the CRIM advances property tax funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. As of June 30, 2014, the CRIM issued the final settlement noting that collections exceeded advances by $304,001. This balance will be collected from the CRIM during fiscal year 2015-2016.

f) Payment Plan Aqueduct and Sewer Authority

On March 24, 2015, the Municipality entered into a repayment agreement with the Commonwealth of Puerto Rico Aqueduct and Sewer Authority to pay the accrued balance of $255,918 as of February 28, 2015. The repayment agreement required an initial payment of $44,430 and 18 monthly installments of $11,749. The actual balance as of June 30, 2015 is $176,240.

g) Legal case allowance

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. Management estimated the amount in $50,000.

h) Unfavorable Legal Sentence (2014)

In May 2014 the Municipality settle in the amount of $1,500,000 a claim arising from an unfavorable legal sentence of $1,828,985. The settlement required annual payments as follows:

Fiscal year 2014-2015	$350,000
Fiscal year 2015-2016	$300,000
Fiscal year 2016-2017	$300,000
Fiscal year 2017-2018	$300,000
Fiscal year 2018-2019	$250,000

The unpaid balance as of June 30, 2015 is $1,150,000.

i) Accrued 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.

j) Compensated Absences

At June 30, 2015, the liability for compensated absences is composed as follows:

	Due within one year	Due after one year	Total
Vacations	$ 75,000	$ 1,524,197	$ 1,599,197
Sick leave	250,000	2,725,207	2,975,207
Total	$ 325,000	$4,249,404	$4,574,404

12. Employees' Retirement Systems

Description of the Plan

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. The ERS is a pension trust of the Commonwealth. ERS covers all regular employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems. The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately $22,981 million, representing a 3.1% 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 million annually, 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 from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. An appropriation for such additional contribution of approximately $120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately $90 million of this amount will not be 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 2015.

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.

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 to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

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.

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).

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.

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.

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

(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.

(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.

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.

Contributions of Participants of Defined Benefit Program

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 is 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.

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.

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.

It is provided that the established increases applicable to the municipalities for fiscal years 2012-2013, 2013-2014 and 2014-2015, shall be included in the budget petition submitted by the Office of Management and Budget to the Legislative Assembly.

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.

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 disable, 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.

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.

(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.

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.

During the fiscal years ended June 30, 2013, 2014 and 2015, the Municipality and the participating employees contributed 100 percent of the required contributions to ERS and System 2000.

The combined actual contributions made by the Municipality to ERS and System 2000 (which equal the required contribution amounts) were as follows during the last three fiscal years:

Year	Contribution
2013	$ 837,732
2014	$ 597,583
2015	$ 741,615

Additionally, changes made in the types and amounts of benefits offered by special laws and costs of living adjustments, led to a one-time recommended contribution to fund the retroactive adjustment related to the changes.

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

At June 30, 2015, the Municipality reported a pension liability of $53,514,239 for its proportionate share of the Employee Retirement System net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 plan relative to the projected contributions of all participating Governmental Entities of the Commonwealth of Puerto Rico, actuarially determined. At June 30, 2015, the Municipality's proportion was 0.18%.

For the year ended June 30, 2015 the Municipality recognized pension expense of $3,068,963, deferred outflows of resources of $1,826,584 and deferred inflows of resources of $428,243, related to pensions.

Pension expense was allocated to the Municipality Departments, as follows:

Governmental Activities:	Amount
General Government	$ 1,522,207
Urban and Economic Development	438,555
Public Safety	314,875
Culture and recreation	160,200
Health and sanitation	373,799
Public housing and welfare	259,327
Total Pension Expense	$ 3,068,963

Pension plan fiduciary net position, actuarial assumptions and additional information

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.

13. 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 $822,930 for the fiscal year ended June 30, 2015.

14. Commitments and Contingencies

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

With respect to pending and threatened litigation, the Municipality has estimated an allowance of $50,000 anticipated unfavorable judgments as of June 30, 2015. Management believes that any unfavorable outcome in relation to pending or threatened litigation would be covered by Municipality's insurance coverage and any exposure would not be significant, if any.

The Municipality receives financial assistance from the federal Governments of the United States of America and the Commonwealth in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal laws and regulations, including the expenditure of resources for eligible purposes. Accordingly, expenditures financed by these programs are subject to financial and compliance audits by the appropriate grantor. Disallowance as a result of these audits may become liabilities of the Municipality. The *"Reports on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133"* for the fiscal year ended June 30, 2010, disclosed various instances of noncompliance with applicable laws and regulations and with internal accounting and administrative controls. If expenditures are disallowed due to non-compliance with grant programs regulations, the Municipality may be required to reimburse the grantor the disallowed amounts. Management believes that the Municipality will be able to comply with the terms of corrective action plans that may be requested by the federal grantors, if any. Management believes that any unfavorable outcome in relation to any possible disallowed costs would not be significant.

14. Fund Balances

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

Restricted for:	General Fund	Debt Service Fund	Capital Improvements Bond Fund	Other Governmental Funds	Total
Debt service	$ -	$ 1,913,772	$ -	$ -	$ 1,913,772
Capital projects	499,812	-	2,578,667	-	3,078,479
Other purposes	-	-	-	1,333,915	1,333,915
Unassigned	(4,670,567)	-	-	-	(4,670,567)
Total fund balances	$ (4,170,755)	$ 1,913,772	$ 2,578,667	$ 1,333,915	$ 1,655,599

15. Prior Period Adjustments

The Municipality has restated the beginning net position of the government wide financial statements at July 1, 2014, to correct unrecorded Long Term Liabilities in years previous to June 30, 2015. The following tables summarize the effects of the situations mentioned above:

Net Position, as Previously Reported,	
At June 30, 2014	$ 28,180,580
Adjustment to record CRIM Loan L-146	(228,085)
Adjustment to record CRIM Liquidation 2014	(304,001)
Adjustment to record Judgement Sentence for	
Construction Taxes Claim	(1,500,000)
Adjustment to record Pension Liability	(50,515,242)
Beginning Net Position, as restated,	
At July 1, 2014 (deficit)	$(24,366,748)

16. Subsequent Events

In October 28, 2015 the Municipality and the Puerto Rico Administration of Health Insurance (ASES) agree that the Municipality is allowed a retroactive claim to ASES in the amount of $2,500,000 for all of the Municipality's claims to ASES from January 2006 to October 2015. The agreement provides for an initial payment to the Municipality of $822,930 and sixty (60) consecutive monthly payment of $27,951.

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.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
SUPPLEMENT INFORMATION – FINANCIAL DATA SCHEDULE
BALANCE SHEET
JUNE 30, 2015

Line Item #	Description	Value
Assets	Current Assets Cash:	
111	Cash - Unrestricted	$ 14,665
113	Cash - Other Restricted	-
100	Total Cash	**14,665**
	Receivables:	
122	Accounts Receivable - HUD Other Projects	-
120	Total Receivables, Net of Allowances for Doubtful Accounts	**-**
142	Prepaid Expenses and Other Assets	-
150	Total Current Assets	**14,665**
290	Total Assets and Deferred Outflow of Resources	**$ 14,665**
Liabilities and Equity	Liabilites	
	Current Liabilities:	
313	Accounts Payable >90 Days Past Due	$ -
322	Accrued Compensated Absences - Current Portion	-
332	Account Payable - PHA Projects	-
333	Accounts Payable - Other Government	21,559
310	Total Current Liabilities	**21,559**
300	Total Liabilities	**21,559**
Equity	Equity	
509.3	Restricted Fund Balance	-
512.3	Unassigned Fund Balance	(6,894)
513	Total Equity - Net Assets / Position	**(6,894)**
600	Total Liabilities, Deferred Inflows of Resources and Equity - Net Assets/Position	**$ 14,665**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANÓVANAS
SUPPLEMENT INFORMATION – FINANCIAL DATA SCHEDULE
INCOME STATEMENT
FOR THE PERIOD ENDED JUNE 30, 2015

Line Item #	Description	Value
70600	HUD PHA Operating Grants	$ 185,242
71500	Other Revenue	12,832
70000	Total Revenue:	**198,074**
	Expenses	
	Administrative:	
91100	Administrative Salaries	29,628
91500	Employee Benefit contributions - Administrative	9,674
91000	Total Operating - Administrative	39,302
92500	Total Tenant Services	-
93000	Total Utilities	-
94000	Total Maintenance	-
95000	Total Protective Services	-
96100	Total insurance Premiums	-
96000	Total Other General Expenses	-
96900	Total Operating Expenses	39,302
97000	Excess of Operating Revenue over Operating Expenses	158,772
97300	Housing Assistance Payments	169,719
97350	HAP Portability-In	-
90000	Total Expenses	209,021
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	**$ (10,947)**
	Memo Account Information:	
*11030	Beginning Equity	$ 123,490
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	$ (119,437)
*11170	Administrative Fee Equity	$ 66,198
*11180	Housing Assistance Payments Equity	$ (73,092)
*11190	Unit Months Available	388
*11210	Number of Unit Months Leased	358

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CANOVANAS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
US DEPARTMENT OF AGRICULTURE		
Passed through PR Government Department Elderly Commission		
Child and Adult Care Food Program	10.558	$ 78,035
Total US Department of Agriculture		78,035
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct programs:		
Community Development Block Grant (CDBG)	14.218	$ 887,868
Housing opportunities for person with AIDS (HOPWA)	14.241	22,368
Community Development Block Grant Section 108 Loan Guar	14.248	400,650
Homelessness Prevention and Rapid Re-Housing	14.257	20,000
Section 8 Housing Choice Vouchers	14.871	216,014
Total US Department of Housing and Urban Developm		1,546,900
US DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through the Puerto Rico Administration for the Childhood Ca and Integral Development:		
Child Care and Development Block Grant	93.575	367,259
Total US Department of Health and Human Services		367,259
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 1,992,194

The accompanying notes are integral part of the financial statements.

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1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of the Municipality of Canóvanas of the Commonwealth of Puerto Rico. The Municipality of Canóvanas reporting entity is defined in Note 1 to the Municipality's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards presents the federal grant activity of Municipality of Canóvanas and is presented on the modified accrual basis of accounting. The basis of accounting is the same used to prepare the fund financial statements. The information of this schedule is presented in accordance with the requirements of the OMB Circular A-133, Audit of State, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparations of the basic financial statements.

3. FEDERAL CFDA NUMBER

The CFDA number 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 Assistance.

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

Hon. Lornna J. Soto Villanueva and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Canóvanas
Canóvanas, 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 Municipality of Canóvanas (the Municipality), Commonwealth of Puerto Rico, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements, and have issued our report thereon dated March 31, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Tel. (787) 993-4360 Fax (787) 993-4365, Email: info@gtcpapr.com

Purpose of this Report

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

San Juan, Puerto Rico
March 31, 2016

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Expires December 1, 2017

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was affixed to the original report

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Lic. 96
PUERTO RICO

GONZÁLEZ TORRES & CO., PSC
Certified Public Accountants and Consultants
Members of: AICPA, PR Society of CPA and Association of Certified Fraud Examiners

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

Hon. Lornna J. Soto Villanueva and
Members of the Municipal Legislature of the
Commonwealth of Puerto Rico
Municipality of Canóvanas
Canóvanas, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Municipality of Canóvanas, Commonwealth of Puerto Rico's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality's major federal programs for the year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the 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 the Municipality's compliance.

Opinion on Each Major Federal Program

In our opinion, the Municipality, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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Tel. (787) 993-4360 Fax (787) 993-4365, Email: info@gtcpapr.com

Report on Internal Control over Compliance

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

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

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

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.

San Juan, Puerto Rico
March 31, 2016

Gonzalez Torres & Co., CPA, PSC

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COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF CANÓVANAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2015

Section I. Summary of Auditors' Results:

Part I Financial Statements

1. Type of audit report:

☐ Unmodified opinion ☒ Qualified opinion

☐ Adverse opinion ☐ Disclaimer of opinion

2. "Going concern" emphasis-of-matter paragraph included

☐ Yes ☒ No

3. Significant deficiency disclosed:

☐ Yes ☒ No

4. Material weakness disclosed:

☐ Yes ☒ No

5. Material noncompliance disclosed:

☐ Yes ☒ No

Part II Federal Awards

1. Type of report: on compliance for major programs:

   ☒ Unmodified opinion ☐ Qualified opinion

   ☐ Adverse opinion ☐ Disclaimer of opinion

2. Reportable condition reported as a major weakness and/or significant deficiency:

   ☐ Yes ☒ No

3. Material noncompliance disclosed:

   ☐ Yes ☒ No

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF CANÓVANAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

JUNE 30, 2015

Section I. Summary of Auditors' Results (continued):

Part II Federal Awards (continued):

4. Audit findings required to be reported under Section 510 (a) of Circular A-133:

☐ Yes ☒ No

5. Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlements Grants
14.871	Section 8 Housing Choice Vouchers Program

6. Dollar threshold used to distinguish Type A
   and Type B programs: $300,000

7. Low-risk auditee

   ☐ Yes ☒ No

8. Waive risk criteria under 520 (i) of Circular A -133

   ☐ Yes ☒ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

JUNE 30, 2015

Section II. Financial Statements Findings

None.

Section III. Federal Awards Findings and Questioned Costs

None.

COMMONWEALTH OF PUERTO RICO
MUNICIPALTY OF CANÓVANAS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

JUNE 30, 2015

The following schedule contains the finding number, CFDA Number, and title of each of the findings included in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 for the Fiscal Year ended June 30, 2014. Under the heading Corrective Action Taken there will be the following:

FR – Fully Resolved (indicating the corrective action plan was fully implemented)

PR – Partially Resolved (indicating the corrective action plan was partially implemented and the finding repeated in fiscal year 2014-2015)

NR – Not Resolved Yet. (Finding repeated in fiscal year 2014-2015)

Original Finding Number	CFDA No.	Finding / Noncompliance	Action
14-001	14.871	Eligibility	FR
14-002	14.871	Eligibility	FR
14-003	14.218	Reporting	FR