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

MUNICIPIO DE CAYEY
AUDITORÍA 2014-2015

30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAYEY

BASIC FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND INDEPENDENT AUDITORS' REPORT (WITH ADDITIONAL REPORTS REQUIRED BY THE SINGLE AUDIT ACT)

Year Ended June 30, 2015

Autonomous Municipality of Cayey
PO Box 371330, Cayey, Puerto Rico 00737
Hon. Rolando Ortíz Velázquez

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López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Cayey**, Puerto Rico (Municipality), 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 State 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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.

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
Head Start Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion on Governmental Activities

The Municipality's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. Accounting principles generally accepted in the United States of America require that governmental employers whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans recognize a liability and pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of the collective net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources reported by the pension plan trust. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined.

In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

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 **Autonomous Municipality of Cayey**, 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 **Autonomous Municipality of Cayey,** Puerto Rico, 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages **4** through **12** and Budgetary Comparison information on pages **60** through **62**, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Management has omitted historical pension information, as stated in GASB Statement No. 68, that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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 accompanying supplementary information – Financial Data Schedule shown in pages **63** and **65** 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 accompanying supplementary information – 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 Financial Data Schedule 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 Financial Data Schedule and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015 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 Municipality's internal control over financial reporting and compliance.

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 30, 2015
Stamp No. 2705489 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

This discussion and analysis of the **Autonomous Municipality of Cayey** (Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended on June 30, 2015. The Management Discussion and Analysis (MD&A) should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended on June 30, 2014. This MD&A is prepared in order to comply with such pronouncement and, among other purposes, to provide the financial statements users with the following major information:

1. a broader basis in focusing important issues;
2. acknowledgement of an overview of the Municipality's financial activities;
3. provide for an evaluation of its financial condition as of the end of the indicated fiscal year, compared with prior year results;
4. identification of uses of funds in the financing of the Municipality's variety of activities and;
5. assess management's ability to handle budgetary functions.

FINANCIAL HIGHLIGHTS

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

1. Total assets of the Municipality amounted to $202,367,499 which represents an increase of 13% compared to prior fiscal year, as restated.
2. At the end of fiscal year 2015, total liabilities amounted to $95,388,916. Out of said amount, $83,395,961 corresponded to long-term liabilities of which $55,950,000 represented the outstanding balance of bonds and notes issued. The Municipality continued to meet all debt service requirements, most of which was paid from self-generated revenues.
3. Total net position of the Municipality amounted to $106,978,583 which represents an increase of 10% compared to prior fiscal year, as restated.
4. Total revenues available for the financing of activities as reflected in the Statement of Activities amounted to $55,162,635 derived from the following sources: $3,729,460 charges for services; $12,934,513 from operating grants and contributions; $2,544,655 from capital grants and contributions obtained from other sources, and $35,954,007 from general revenues available.

Total expenses incurred to afford the cost of all functions and programs as reflected in the Statement of Activities amounted to $45,221,365.

FINANCIAL HIGHLIGHTS (CONTINUED)

1. As reflected in the Statement of Activities, the current fiscal year operations contributed to an increase in the Net Position figure by $9,941,270.

2. As of the close of the current fiscal year, the Municipality's Governmental Funds reported combined ending fund balances of $55,337,102.

3. As of the end of the current fiscal year, the Municipality's general fund balance amounted to $15,126,434, compared to a fund balance of $12,359,606 in the prior fiscal year, as restated.

4. The actual General Fund budgetary activities resulted in a favorable balance of $3,926,801.

FUNDAMENTALS OF FINANCIAL STATEMENTS PRESENTATION

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

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

FINANCIAL STATEMENTS COMPONENTS

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

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

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

FINANCIAL STATEMENTS COMPONENTS (CONTINUED)

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows total expenses incurred to afford the cost of all functions and programs amounted to $45,221,365. Upon examining the sources of revenues for the financing of said programs, the Statement reflects that $19,208,628 was derived from the following sources: $3,729,460 charges for services; $12,934,513 from operating grants and contributions; and $2,544,655 from capital grants and contributions obtained from other sources. General revenues for the year amounted to $35,954,007. When such figure is added to the $19,208,628 previously mentioned, total revenues available for the financing of activities amounted to $55,162,635. There was an excess of revenues over expenses in the amount of $9,941,270 which contributed to an increase to the figure of net position attained at the end of the fiscal year.

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

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

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

INFRASTRUCTURE ASSETS

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

INFRASTRUCTURE ASSETS (CONTINUED)

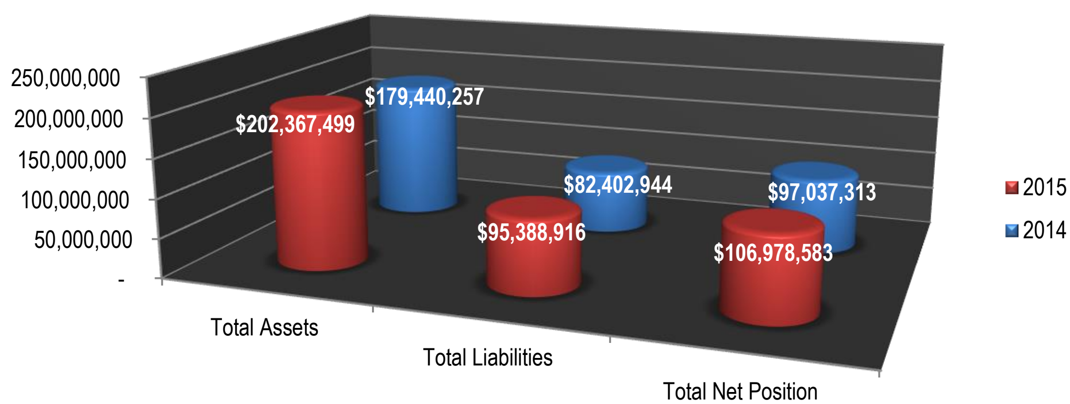
According to the requirements of GASB 34, the government must elect to either (a) depreciate the aforementioned assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery to near perpetuity. If the government develops the asset management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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net Position

The Statement of Net Position serves as an indicator of the Municipality's financial position at the end of the fiscal year. In the case of the **Autonomous Municipality of Cayey**, primary government assets exceeded total liabilities by $106,978,583 at the end of 2015, compared to $96,322,948 at the end of the previous year, as restated, as showed in the following condensed Statement of Net Position of the Primary Government.

Condensed Statement of Net Position	2015	2014	Change	%
Current and other assets	$70,960,567	$53,476,554	$17,484,013	33%
Capital Assets	131,406,932	125,963,703	5,443,229	4%
Total Assets	202,367,499	179,440,257	22,927,242	13%
Current and other liabilities	11,992,955	11,193,853	799,102	7%
Long-term liabilities	83,395,961	71,209,091	11,693,969	17%
Total Liabilities	95,388,916	82,402,944	12,985,972	16%
Net investment in capital assets	76,460,660	81,370,417	(4,909,757)	(6%)
Restricted	36,482,271	28,009,411	8,472,860	30%
Unrestricted (deficit)	(5,964,348)	(12,342,515)	6,378,167	(52%)
Total net position	$106,978,583	$97,037,313	$9,941,270	10%

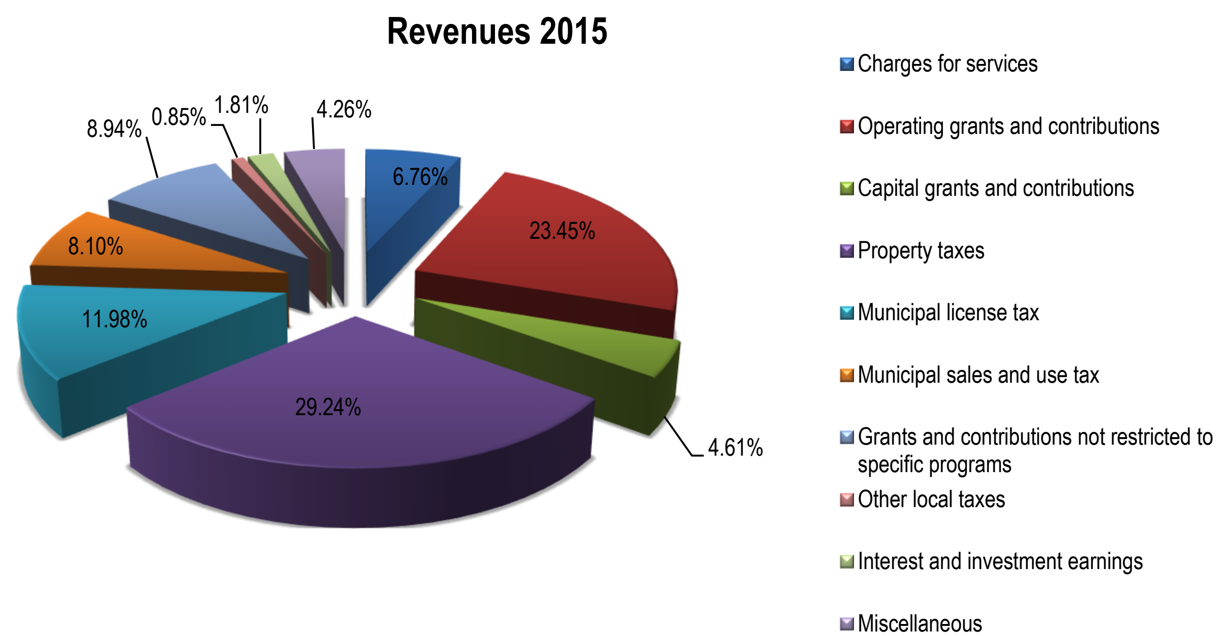


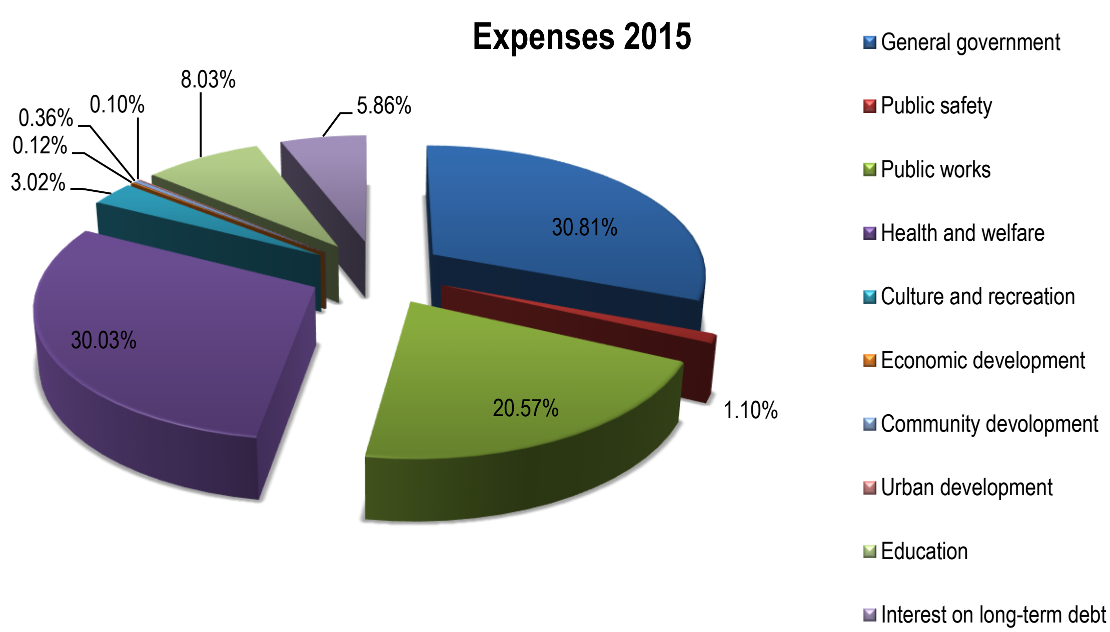
FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)

Approximately 50% percent of the Municipality's total revenue came from taxes, while 37% percent resulted from grants and contributions, including federal aid. Charges for Services provide 7% percent of the total revenues. The Municipality's expenses cover a range of services. The largest expenses were for general government 31% percent, and health and welfare services 30% percent. As follows, a comparative analysis of governmental-wide data is presented. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year, as restated, to current year.

Condensed Statement of Activities	2015	2014	Change	%
Program revenues:				
Charges for services	$3,729,460	$3,744,086	($14,626)	0%
Operating grants and contributions	12,934,513	11,758,092	$1,176,421	10%
Capital grants and contributions	2,544,655	1,813,990	$730,665	40%
General revenues:				
Property taxes	16,131,965	14,534,402	$1,597,563	11%
Municipal license tax	6,608,996	6,710,076	($101,080)	(2%)
Municipal sales and use tax	4,469,588	4,850,765	($381,177)	(8%)
Grants and contributions not restricted to specific programs	4,931,709	4,796,995	$134,714	3%
Other local taxes	466,606	917,767	($451,161)	(49%)
Interest and investment earnings	996,430	539,419	$457,011	85%
Miscellaneous	2,348,713	1,167,350	1,181,363	101%
Total revenues	55,162,635	50,832,942	4,329,693	9%
Expenses:				
General government	13,931,452	16,527,256	(2,595,804)	(16%)
Public safety	502,356	584,387	(82,031)	(14%)
Public works	9,303,582	7,411,640	1,891,942	26%
Health and welfare	13,581,260	14,244,401	(663,141)	(5%)
Culture and recreation	1,364,569	1,850,680	(486,111)	(26%)
Economic development	53,435	138,438	(85,003)	(61%)
Community development	160,671	340,136	(179,465)	(53%)
Urban development	45,920	83,890	(37,970)	(45%)
Education	3,629,378	3,849,935	(220,557)	(6%)
Interest on long-term debt	2,648,742	2,105,540	543,202	26%
Total expenses	45,221,365	47,136,303	(1,914,938)	(4%)
Change in net position	9,941,270	3,696,639	6,244,631	169%
Net position, beginning, as restated	97,037,313	93,340,674	3,696,639	4%
Net position, end of year	$106,978,583	$97,037,313	$9,941,270	10%

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (CONTINUED)





FINANCIAL ANALYSIS OF THE MUNICIPALITY'S INDIVIDUAL FUNDS

Governmental Funds

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

As of the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $55,377,102 an increase of $14,968,084 in comparison with the prior year, as restated. There are reservations of fund balance amounting to $50,986,647. The combined fund balances include restricted fund balance amounting to $39,221,038. This is the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions 1) to pay for specific program purposes $25,894,485; 2) to pay for capital projects $6,108,303; 3) to pay debt services $7,218,250. There are committed fund balance amounting to $4,502,980 that can only be used pursuant to constraint formally imposed by the Municipal Legislature by ordinances and resolutions 1) to pay for specific programs purpose $4,410,770 and; 2) to pay for capital projects $92,210. There are assigned fund balances amounting to $7,262,629 that represent resources for specific purposes but do not meet the definition to be classified as restricted or committed (generally executive orders approved by the Mayor) 1) to pay for specific programs purposes $6,650,762; and 2) to pay for capital projects $611,867.

Within the governmental funds, it is included the general fund which is the chief operating fund of the Municipality. As of June 30, 2015, the general fund has an unassigned fund balance of $5,208,361.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The actual General Fund budgetary activities resulted in a favorable balance of $3,926,801 caused mainly due to unexpected variances in revenue and expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Municipality's investment in capital assets as of June 30, 2015, amounts to $185,723,488, with an accumulated depreciation of $54,316,558 (including depreciation charges for the year totaled $3,985,417, leaving a net book value of $131,406,930. This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, infrastructure, furnishing, computers, and vehicles. Infrastructure assets are items that are normally immovable and of value only to the state, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

The Municipality finances a significant portion of its construction activities through bond or notes issuances. The proceeds from bond and notes issuances designated for construction activities are committed in its entirety for such purposes and cannot be used for any other purposes. As of June 30, 2015, the Municipality has $5,801,591 of unexpended proceeds mainly from bonds and notes issuances that are restricted, committed and/or assigned to future construction activities.

Debt Administration

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

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

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

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

The following is a summary of the Municipality's outstanding debt as of June 30, 2015 and 2014:

Outstanding Long-Term Debt Fiscal Years Ended June 30	**2015**	**2014**
General and special obligation bonds payable	$52,865,000	$42,673,000
General and special obligation notes payable	2,835,000	2,245,000
Section 108 Loan Guarantee notes payable	250,000	645,000
Payable to CRIM	3,696,803	3,819,568
CRIM Property Tax Advances 2014-2015	115,721	-
Compensated Absences	3,508,971	3,287,372
Claims and judgments	53,000	13,000
Landfill obligation	15,772,026	14,854,846
Special Obligation Bond Anticipation Note-GDB Line of Credit	3,819,662	3,194,492
Christmas Bonus	479,778	476,813
Total	**$83,395,961**	**$ 71,209,091**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

At year-end, the Municipality had outstanding balance of $83,395,961 in general and special bonds and notes, an increase with respect to the prior year of $12,186,870 mainly due to the issuance of new bonds and notes for the amount of $13,835,000. Other significant change is in the claims and judgments item which increased $40,000 as per legal counsel evaluation of the Municipality's exposure as of year-end.

More detailed information about the Municipality's long-term liabilities is presented in Note 10 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Municipality relies primarily on property and municipal taxes as well as federal and state grants to carry out the governmental activities. Historically, property and municipal taxes have been very predictable with increases of approximately five percent. Federal and State grant revenues may vary if new grants are available but the revenue also is very predictable. Those factors were considered when preparing the Municipality's budget for the fiscal year 2015-2016.

FINAL COMMENTS

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

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

The new GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27,* was effective for the fiscal year ended June 30, 2015. This Statement requires participants of cost-sharing defined benefit pension plans that are administered through trusts that comply with certain criteria to recognize in their financial statements their proportionate share of the collective net pension liability, net pension expense and deferred outflows/inflows of resources related to pensions. The Municipality's pension plan is administered by the Employees Retirement System Administration (ESR). The ESR has not issued its audited financial statements for the fiscal year ended June 30, 2014 (the plan's measurement date), and as a result, the Municipality of Cayey could not comply with the accounting and financial reporting requirements set forth in GASB Statement No. 68. Consequently, the Municipality's financial statements do not report or disclose the required information for its pension plan for the fiscal year 2014-15.

FINANCIAL CONTACT

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

		Governmental Activities
Assets		
Cash and cash equivalents	$	35,150,109
Cash with fiscal agents		33,515,256
Receivables, net:		
Municipal license taxes		17,062
Due from:		
Commonwealth Government		2,172,804
Federal Government		105,336
Capital assets		
Land and construction in progress		50,656,587
Other capital assets, net		80,750,345
Total capital assets		131,406,932
Total assets		202,367,499
Liabilities		
Accounts payable and accrued liabilities		5,194,131
Due to:		
Commonwealth Government		155,872
Interest payable		1,376,162
Unearned revenues:		
Municipal license tax		5,266,790
Noncurrent liabilities:		
Due within one year		4,684,905
Due in more than one year		78,711,056
Total liabilities		95,388,916
Net position		
Net investment in capital assets		76,460,660
Restricted for:		
Capital projects		19,557,010
Debt service		15,888,697
Other purposes		1,036,564
Unrestricted (deficit)		(5,964,348)
Total net position	$	106,978,583

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

		Program Revenues			Net (Expenses) Revenues and Change in Net Position
Functions/Programs	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
General government	$13,931,452	$ 10,484	$ -	$ -	$ (13,920,968)
Public safety	502,356	10,062	31,800		(460,494)
Public works	9,303,582	279,884	51,586	1,030,113	(7,941,999)
Health and welfare	13,581,260	2,839,426	9,675,491		(1,066,343)
Culture and recreation	1,364,569		74,307		(1,290,262)
Economic development	53,435	589,604	184,999		721,168
Community development	160,671		1,226,096	1,514,542	2,579,967
Urban development	45,920				(45,920)
Education	3,629,378		1,690,234		(1,939,144)
Interest on long-term debt	2,648,742				(2,648,742)
Total governmental activities	$45,221,365	$ 3,729,460	$ 12,934,513	$ 2,544,655	(26,012,737)

General revenues:	
Taxes:	
Property taxes	16,131,965
Municipal license taxes	6,608,996
Sales and use taxes	4,469,588
Other local taxes	466,606
Grants and contributions not restricted to specific programs	4,931,709
Interest	996,430
Miscellaneous	2,348,713
Total general revenues	35,954,007
Change in net position	9,941,270
Net position - beginning, as restated	97,037,313
Net position - ending	$ 106,978,583

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

	Major Funds				
	General Fund	Debt Service Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 22,068,168	$ -	$ 615,353	$ 12,466,588	$ 35,150,109
Cash with fiscal agents		11,064,870		22,450,386	33,515,256
Receivables, net:					
Municipal license tax	17,062				17,062
Due from:					
Commonwealth Government	699,818	626,243		846,743	2,172,804
Federal Government				105,336	105,336
Other funds	269,705			141,152	410,857
Total assets	$ 23,054,753	$ 11,691,113	$ 615,353	$ 36,010,205	$ 71,371,424
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	$ 1,676,524	$ -	$ 408,864	$ 2,096,665	$ 4,182,053
Mature bonds, notes and interest payable		4,472,863			4,472,863
Due to:					
Commonwealth Government	155,872				155,872
Other funds	141,152		16,668	253,037	410,857
Unearned revenues:					
Municipal license tax	5,266,790				5,266,790
Total liabilities	7,240,338	4,472,863	425,532	2,349,702	14,488,435
Deferred Inflows of Resources:					
Unavailable revenues - Comonwealth Government	687,981			138,750	826,731
Unavailable revenues- Federal Government				719,156	719,156
Total deferred inflows of resources	687,981	-	-	857,906	1,545,887
Fund Balance					
Restricted		7,218,250	189,821	31,812,967	39,221,038
Committed	3,439,226			1,063,754	4,502,980
Assigned	6,478,847			783,782	7,262,629
Unassigned	5,208,361			(857,906)	4,350,455
Total fund balances	15,126,434	7,218,250	189,821	32,802,597	55,337,102
Total liabilities, deferred inflows of resources and fund balances	$ 23,054,753	$ 11,691,113	$ 615,353	$ 36,010,205	$ 71,371,424

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

Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds
For the Year Ended June 30, 2015

	Major Funds				
	General Fund	Debt Service Fund	Head Start Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property taxes	$ 8,620,498	$ 7,627,188	$ -	$ -	$ 16,247,686
Municipal license taxes	6,608,996				6,608,996
Sales and use taxes	3,479,979	989,609			4,469,588
Intergovernmental:					
Commonwealth Government	4,930,331			2,714,408	7,644,739
Federal Government			6,459,093	5,015,507	11,474,600
Licenses, permits and other local taxes	482,941				482,941
Charges for services	2,903,375				2,903,375
Fines and forfeitures	6,588				6,588
Rental of property	803,162				803,162
Interest	992,496			3,934	996,430
Miscellaneous	752,128			48,592	800,720
Total revenues	29,580,494	8,616,797	6,459,093	7,782,441	52,438,825
Expenditures					
Current:					
General government	14,755,501				14,755,501
Public safety	432,283				432,283
Public works	3,773,358			5,204,774	8,978,132
Health and welfare	5,599,869		6,335,527	3,533,596	15,468,992
Culture and recreation	1,022,139			149,442	1,171,581
Economic development				184,999	184,999
Community development	180,702			971,686	1,152,388
Urban development				144,874	144,874
Education	495,011			2,783,707	3,278,718
Debt service:					
Principal	155,000	3,264,500		395,000	3,814,500
Interest	192,625	2,347,263		9,055	2,548,943
Total expenditures	26,606,488	5,611,763	6,335,527	13,377,133	51,930,911
Excess (deficiency) of revenues over (under) expenditures	2,974,006	3,005,034	123,566	(5,594,692)	507,914
Other financing sources (uses)					
Proceeds from issuance of long-term debt				13,835,000	13,835,000
Proceeds from bond anticipation notes				625,170	625,170
Transfers in		135,169	56,948	667,034	859,151
Transfers out	(207,178)	(651,973)			(859,151)
Total other financing sources (uses)	(207,178)	(516,804)	56,948	15,127,204	14,460,170
Net change in fund balances	2,766,828	2,488,230	180,514	9,532,512	14,968,084
Fund balance, beginning	12,359,606	4,730,020	9,307	23,270,085	40,369,018
Fund balance, ending	$ 15,126,434	$ 7,218,250	$ 189,821	$ 32,802,597	$ 55,337,102

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

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
For the Year Ended June 30, 2015

Total Fund Balances - Governmental Funds		**$ 55,337,102**
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		131,406,932
Other assets are not available to pay current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Due from Commonwealth Government:		
P.R. Department of Labor - Law Num. 52	$ 138,750	
P.R. Department of Transportation and Public Works - Special Communities Program	465,139	
P.R. Department of Education - 21st Century Program	707,993	
Christmas bonus reimbursement	222,842	
Due from Federal Government:		
Federal grant - Federal Transit Administration	11,163	1,545,887
Accounts payable that are not due and payable in the current period and, therefore, are not reported in the funds		(1,012,078)
Interest liabilities are not due and payable in the current period and, therefore, are not reported in the funds		(99,799)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the funds:		
General obligation bonds and notes	52,503,500	
Special obligation bond anticipation note	3,819,662	
Section 108 Loan Guarantee notes payable	250,000	
Note payable to CRIM - Law No. 42	3,407,606	
Note payable to CRIM - Law No. 146	289,197	
Compensated absences	3,508,971	
Claims and judgments	53,000	
Christmas bonus	479,778	
Payable to CRIM - property tax advances	115,721	
Landfill	15,772,026	(80,199,461)
Net position of governmental activities		**$ 106,978,583**

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds		**$ 14,968,084**
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital assets outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	$ 7,853,205	
Less: current-year depreciation	(3,985,417)	3,867,788
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Christmas bonus reimbursement (current year)	222,842	
P.R. Department of Labor - Law Num. 52	138,750	
P.R. Department of Transportation and Public Works - Special Communities Program	465,139	
P.R. Department of Education - 21st Century Program	707,993	
Federal grant - Federal Transit Administration	11,163	
Donated capital assets	1,596,585	3,142,472
Revenues reported in the funds that are not reported as revenues in the Statement of Activities:		
Property taxes - General Fund (current year)	(115,721)	
Christmas bonus reimbursement (prior year)	(221,464)	
P.R. Department of Labor - Law Num. 52	(81,477)	(418,662)
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the disposed asset		(21,144)
Proceeds from general obligation bonds and notes are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(13,835,000)
Proceeds from special obligation bond anticipation notes are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position		(625,170)
Expenditures reported in the funds which are not reported as expenses in the Statement of Activities:		
Matured bonds and notes principal payments (net change)		366,500
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds and notes	3,053,000	
Other long-term liabilities	1,374,563	4,427,563
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures:		
Compensated absences	(601,584)	
Christmas bonus	(479,778)	
Claims and judgments	(40,000)	
Landfill	(917,180)	
Accounts payable (net change)	207,180	
Accrued interest (net change)	(99,799)	(1,931,161)
Change in net position of governmental activities		**$ 9,941,270**

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **Autonomous Municipality of Cayey** (Municipality) was founded on the year 1773. The Municipality's governmental system consists of an executive and legislature branch elected for a four-year term during the general elections of Puerto Rico. The Mayor is the executive officer and the legislative branch consists of sixteen members of the Municipal Legislature. The Municipality provides a comprehensive range of services to its citizens such as: general government administration; public works and sanitation; public safety; health; welfare programs; community, urban and economic development; culture and recreation activities and educational services.

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

A. Financial reporting entity

The financial reporting entity included in this report consists of the financial statements of the Autonomous Municipality of Cayey (primary government) and organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. Other entities should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity. An entity should be considered a component unit if meets any of the following three conditions:

1. The primary government appoints a voting majority of the entity's governing body, and either:
    - A financial benefit/ burden exist between the primary government and the entity or
    - The primary government can impose its will on the entity.
2. The entity is fiscally dependent on the primary government and there is a financial benefit/burden between the primary government and the entity.
3. It would be necessary to include the entity as a component unit since the primary government's financial statements would be misleading without it.

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

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

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

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

Legally separate, tax-exempt organizations that do not meet the above special criteria should still be included as a component unit if the financial statements of the primary government would be misleading without them.

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

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

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

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

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

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

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

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

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

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

Management's Discussion and Analysis

It provides a narrative introduction and analytical overview of the Municipality's financial activities.

Basic financial statements

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

Government-wide Financial Statements (GWFS)

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

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

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

The Municipality reports unearned revenues in the government-wide statements. Unearned revenues arise when resources are received before the Municipality has a legal claim to them (such as advances of derived tax revenues) or before applicable eligibility requirements are met (in case of certain federal expenditure-driven grants if resources are received before allowable expenditures are incurred).

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

In subsequent periods, when the Municipality has a legal claim to the resources, the liability for unearned revenues is removed from the statement of net position and the revenue is recognized.

Fund Financial Statements (FFS)

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

The Municipality reports the following major governmental funds:

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

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

Head Start Fund – This fund is used to account for and report revenues sources received from the U.S. Department of Health and Human Services that are restricted for expenditure for the activities performed under the Head Start program. These activities consist of providing services to pregnant women and children (birth to 5) and their families that are under the poverty line or are eligible for public assistance.

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

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

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

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

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

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

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

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

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

Notes to financial statements

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

Required Supplementary Information (RSI)

The Required Supplementary Information consists of the Budgetary Comparison Schedule – General Fund, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability, and the Schedule of Municipality Contributions, as required by GASB.

C. Financial reporting presentation

The accounts of the Municipality are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Fund types are as follows:

General Fund – Is the Municipality main operating fund used to account for and report all financial and reported resources and governmental activities, except for those 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) USGAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund. Its revenues consist mainly of taxes, licenses and permits, intergovernmental, charges for services and other.

Special Revenue Funds – Is a governmental fund used to account for and report the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. Resources restricted or committed to expenditure for purposes normally financed from the general fund are generally accounted for in the general fund provided that all applicable legal requirements can be appropriately satisfied and the use of special revenue funds is not required unless they are legally mandated.

Capital Projects Funds – is a governmental fund used to account for and report financial resources that are restricted or committed to expenditure for capital outlays, including the acquisition or construction of major capital facilities, including those outlays financed by the general obligation bond proceeds (other than those financed by proprietary funds or in trust funds for individuals, private organizations, or other governments).

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

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

Debt Service Fund – is a major governmental fund used to account for and report for the accumulation of financial resources that are restricted 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 (2) certain special long-term obligations for which the Municipality is been accumulating financial resources in advance to pay principal and interest payments maturing in future years.

D. Deposits and investments

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

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

E. Restricted assets

Restricted assets are liquid assets which have third-party limitations on their use. Cash and cash equivalents related to Commonwealth and Federal grants (including Commonwealth Legislature Resolutions) are restricted since their use is limited by applicable agreements or required by law.

Restricted cash with fiscal agent in the debt service fund consists of the undisbursed balance of property and sales tax collections retained by the Commonwealth of Puerto Rico which are restricted for the repayment of the Municipality's general and special obligation bonds and notes as established by law. Restricted cash with fiscal agent of the other governmental funds represent the undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the GDB or a federal government agency.

F. Receivables and due from governmental entities

Receivables are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Amounts due from Commonwealth government in the general and debt service funds represent property tax revenues of the current fiscal year collected by the CRIM on the subsequent fiscal year. Amounts due from Commonwealth and federal governments reported in the special revenue or capital project funds represent amounts owed to the Municipality for the reimbursement of expenditures incurred pursuant to federally funded or state funded programs.

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

G. Interfund receivables and payables

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

Advances between funds, as reported in the fund financial statements, if any, are reported as "nonspendable" in the fund balance section of the Balance Sheet to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories

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

I. Capital assets

Capital assets reported in the governmental activities in the Statement of Net Position include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items. The Municipality defines capital assets (except infrastructure assets) as assets with an individual cost of more than $100 and an estimated useful life in excess of one year. Infrastructure assets are capitalized based on a percentage of the estimated useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are capitalized at historical cost or estimated historical cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

Description	Useful Life
Buildings and site improvements	40 years
Infrastructure	40 years
Works of art	10 years
Vehicles	5 years
Furniture and fixtures	5 years
Machinery and equipment	3 to 5 years

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

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

J. Deferred outflows/inflows of resources

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

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

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

2. **Unavailable revenue reported under the modified-basis of accounting –** Amounts collected or to be collected after the availability period are recognized as *unavailable revenue* in the governmental funds Balance Sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

3. **Deferred outflows/inflows of resources related to pensions –** Amounts reported for changes in the calculation of the net pension liability that result from: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual earnings on pension plan investments; d) changes in proportion and difference between Municipality's contributions and proportionate share of contributions; and e) Municipality's contributions subsequent to the measurement date.

K. Long-term obligations

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

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

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

L. Compensated absences

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

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

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

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

M. Claims and judgments

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

N. Net position

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

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

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

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

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

O. Net position flow assumption

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

P. Fund balances

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

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

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

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

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

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

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

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 balances amounts as of for the fiscal year ended June 30, 2015.

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

Q. Fund balance flow assumptions

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

R. Accounting for pension costs

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

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

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

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

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

S. Interfund and intra-entity transactions

The Municipality has the following types of transactions among funds:

a. **Operating transfers -** Legally required transfers that are reported when incurred as “Transfers-in” by the recipient fund and as “Transfers-out” by the disbursing fund.

b. **Intra-entity transactions -** Transfers between the funds of the primary government are reported as interfund transfers with receivables and payables presented as amounts due to and due from other funds.

T. Risk financing

The Municipality carries commercial insurance that consists of professional, public responsibility, property and theft, auto and fidelity bond coverage. Under Law Num. 63 of June 21, 2010, the Legislature of the Commonwealth of Puerto Rico authorized the municipalities to procure and manage, at their own discretion, all insurance policies, including those related to the health plans provided to the municipal employees. The Municipality’s commercial insurance and health plan coverages are procured and negotiated through a single insurance broker. The broker obtains quotes from the different insurance companies and the Municipality’s management makes the selection based on coverage and price. The total cost of the annual premiums is financed through a payment plan made with an insurance financing company, and the monthly payments are deducted from the advances of property tax and amounts of the municipal equalization fund sent to the Municipality by the CRIM.

The Municipality obtains workers’ compensation insurance through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. The annual premium is also deducted from the monthly advances by the CRIM.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers’ insurance coverage for its employees through various insurance programs administered by the Puerto Rico 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 due to a non-occupational disability.

The unemployment and non-occupational disability insurance premiums are paid directly to DOL on a cost-reimbursement basis; the drivers’ insurance premiums are paid based on the number of workweeks by each employee covered by law.

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

U. Use of Estimates

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

V. Future adoption of accounting pronouncements

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

1. **GASB Statement No. 72 "Fair Value Measurement and Application."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).

2. **GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016), except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).

3. **GASB Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2016 (fiscal year ended June 30, 2017).

4. **GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2017 (fiscal year ended June 30, 2018).

5. **GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."** The provisions of this Statement are effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016).

6. **GASB Statement No. 77 "Tax Abatement Disclosures."** The provisions of this Statement are effective for fiscal years beginning after December 15, 2015 (fiscal year ended June 30, 2017).

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

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

W. Subsequent events

Subsequent events have been evaluated through November 30, 2015, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended June 30, 2015.

2. CASH AND CASH EQUIVALENTS

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

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

Credit risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth, the Municipality has adopted, as it's custodial and credit risk policy, the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico*. Accordingly the Municipality invests only in obligations of the Commonwealth, obligations of the United States of America, certificates of deposits, commercial paper, bankers' acceptances, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. According to the aforementioned investment guidelines, the Municipality does not invest in marketable securities or any types of investments for which credit risk exposure may be significant.

Therefore, the Municipality's management has concluded that the 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 investments in its investment portfolio at June 30, 2015, 2) limiting the weighted average maturity of its investments to three months or less, and 3) keeping most of its bank deposits in interest-bearing accounts generating interests at prevailing market rates. At June 30, 2015, the Municipality's investments in certificates of deposits are recorded at cost, which approximates their fair value.

Therefore, the Municipality's management has concluded that, at June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalents is considered low.

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the Municipality's deposits may not be recovered. The Municipality maintains cash deposits in commercial and governmental banks located in Puerto Rico. Under Commonwealth of Puerto Rico statutes, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral by the Municipality are held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits with the GDB are uninsured and uncollaterized. However, no losses related to defaults by the GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

2. CASH AND CASH EQUIVALENTS (CONTINUED)

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 – The risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, the Municipality is prevented from investing in foreign securities or any other types of investments in 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.

Deposits – At year-end, the Municipality's bank balance of deposits in commercial banks amounting to $35,150,109 was covered by federal depository insurance or by collateral held by the Secretary of Treasury of Puerto Rico in the Municipality's name. Deposits in governmental banks (all of which are uninsured and uncollateralized), amounts to $33,515,256 as of June 30, 2015.

3. RECEIVABLES

A. MUNICIPAL LICENSE TAXES

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

During the fiscal year ended June 30, 2015, the tax rates were as follows:

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

The tax is due in two equal installments on July 1 and January 1 of each fiscal year. Tax revenue is recognized at that moment by the Municipality. A discount of 5% is allowed when full payment is made on or before April 15. Municipal license taxes collected prior to June 30 but pertaining to the next fiscal year in the amount of $5,266,790 is recorded as unearned revenues. As of June 30, 2015 Municipal License Tax receivable amounted to $ 17,062.

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4. DUE FROM (TO) GOVERNMENTAL ENTITIES

A. Amounts due from governmental entities as of June 30, 2015 are as follows:

	Commonwealth Government	Federal Government
Major fund – General fund:		
PR Department of Transportation and Public Works	$ 465,138	$ -
Municipal Revenue Collection Center (CRIM)- property taxes and intergovernmental subsidy	11,838	
Major fund – Debt service fund:		
Municipal Revenue Collection Center (CRIM) – property taxes	626,243	
Other Governmental Funds:		
P.R. Department of Labor	138,750	
P.R. Department of Education	707,993	
P.R. Department of Treasury	222,842	
U.S. Department of Housing and Urban Development		28,920
P.R. Public Housing Administration		26,583
U.S. Department of Transportation		29,484
U.S. Department of Health and Human Resources		19,895
U.S. Department of Agriculture		454
	$ 2,172,804	**$ 105,336**

Certain amounts are recorded as deferred inflows of resources in the governmental funds statements since they are not available as required by current standards. See related Note 11.

B. Amounts due to governmental entities as of June 30, 2015 follows:

Description	Commonwealth Government
General Fund:	
	$ 55,525
P.R. Aqueduct and Sewer Authority (PRASA)	55,525
P.R. Retirement System Administration	84,818
P.R. Commonwealth Workers Association	8,581
P.R. Department of Treasury	2,855
P.R. Department of Labor	2,120
P.R. Telephone Company	1,873
P.R. General Services Administration	100
	$ 155,872

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5. INTERFUND TRANSACTIONS

A. Due from/to other funds

Amounts due from/to other funds in the general fund represent advances to other funds to finance payroll, payroll taxes and other expenditures as follows:

Receivable Funds	Payable Funds	Amount
General Fund	**Head Start Fund**	$ 16,668
	Other Governmental Funds:	
	Special Revenue State & Local – Law Num. 52	138,750
	Special Revenue State & Local - CODERU	39,901
	Special Revenue Federal – Title III	26,507
	Special Revenue Federal – Section 8 HCVP	19,871
	Special Revenue Federal – Federal Transit Administration	8,770
	Special Revenue Federal – Community Development Block Grant	7,527
	Special Revenue Federal – Home Land Security	5,466
	Special Revenue Federal- Housing Opportunity for People with AIDS	4,650
	Special Revenue State & Local – "Escuela de Bellas Artes"	900
	Special Revenue Federal- Public & Indian Housing	695
		269,705
Other Governmental Funds	**General Fund**	141,152
		$ 410,857

B. Transfers-in (out)

Transfers among individual funds were made for operational purposes as follows:

Originating Fund	Receiving Fund	Purpose	Amount
General Fund	Head Start Fund	Commitments of funds for special purposes.	$ 56,948
General Fund	Debt Service Fund	Transfer of funds for debt retirement.	135,169
General Fund	Other Governmental Funds	Commitments of funds for special purposes.	15,060
Debt Service Fund	Other Governmental Funds	Transfer of excess funds in sinking fund.	651,973
Total			**$ 859,150**

6. FUND BALANCE

The governmental fund balance classifications and amounts a June 30, 2015 are shown in the following table:

	General Fund	Head Start Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
General government	$ -	$ -	$ -	$ 204,463	$204,463
Public safety				381,753	381,753
Public works				18,460,822	18,460,822
Health and welfare		189,821		851,642	1,041,463
Culture and recreation				412,847	412,847
Economic development				812,190	812,190
Community development				-	-
Education				4,580,947	4,580,947
Debt service			7,218,250	-	7,218,250
Capital projects				6,108,303	6,108,303
Committed					
General government				163,975	163,975
Public safety				55,000	55,000
Public works	3,439,226			141,097	3,580,323
Health and welfare				1,406	1,406
Culture and recreation				22,431	22,431
Education				587,635	587,635
Capital projects				92,210	92,210
Assigned					
General government	5,243,160				5,243,160
Public safety	179,788				179,788
Public works	471,288				471,288
Health and welfare	313,333				313,333
Culture and recreation	187,813			111,915	299,728
Education	83,465			60,000	143,465
Capital projects				611,867	611,867
Unassigned	5,208,361	-	-	(857,906)	4,350,455
Total fund balances	$ 15,126,434	$ 189,821	$ 7,218,250	$ 32,802,597	$55,337,102

7. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2015 is as follows:

Governmental Activities:	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Capital asset, not being depreciated:				
Construction in progress	$ 24,242,605	$ 4,746,826	$ (5,528,156)	$ 23,461,275
Land	25,598,727	1,596,585		27,195,312
Total capital assets not being depreciated	49,841,332	6,343,411	(5,528,156)	50,656,587
Capital assets, being depreciated:				
Buildings and buildings improvements	77,287,325	4,324,729		81,612,054
Infrastructure and infrastructure improvements	28,999,643	3,908,462		32,908,105
Equipment	8,451,036	245,058	(113,291)	8,582,803
Works of art	476,162			476,162
Vehicles	11,331,492	156,286		11,487,778
Total capital assets being depreciated	126,545,658	8,634,535	(113,291)	135,066,902
Less accumulated depreciation for:				
Buildings and buildings improvements	(21,821,444)	(1,811,551)		(23,632,995)
Infrastructure and infrastructure improvements	(11,644,976)	(1,269,659)		(12,914,635)
Equipment	(6,234,504)	(521,537)	92,147	(6,663,894)
Works of art	(5,757)	(735)		(6,492)
Vehicles	(10,716,606)	(381,935)		(11,098,541)
Total accumulated depreciation	(50,423,287)	(3,985,417)	92,147	(54,316,557)
Total capital assets being depreciated, net	76,122,371	4,649,118	(21,144)	80,750,345
Governmental activities capital assets, net	**$ 125,963,703**	**$ 10,992,529**	**$ (5,549,300)**	**$ 131,406,932**

7. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	Amount
General government	$1,004,080
Public safety	70,073
Public works	1,280,637
Community development	197,503
Urban Development	33,099
Culture and recreation	870,356
Health and welfare	170,677
Economic development	489
Education	358,503
Total depreciation expense-governmental activities	$ 3,985,417

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015 are summarized as follows:

Description	General Fund	Head Start Fund	Debt Service Fund	Other Governmental Fund	Total
Accounts payable	$ 764,467	$ 408,864	$ -	$ 2,096,665	$ 3,269,996
Accrued liabilities	912,057	-	-	-	912,057
Total	**$ 1,676,524**	**$ 408,864**	**$ -**	**$ 2,096,665**	**$ 4,182,053**

9. UNEARNED REVENUES

The amounts reported as unearned revenues as of June 30, 2015 are detail as follows:

	Amount
Major fund – General fund:	
Municipal license taxes collected in the fiscal year 2014-2015 that correspond to the 2015-2016 fiscal year budget	$ 5,266,790
	$ 5,266,790

10. LONG-TERM LIABILITIES

A. Summary of long-term debt activity

Long-term liability activity for the year ended June 30, 2015, was as follows:

Description	Beginning Balance, as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
General and special obligation bonds payable	$ 42,673,000	$ 12,810,000	$ (2,618,000)	$ 52,865,000	$ 2,837,500
General and special obligation notes payable	2,245,000	1,025,000	(435,000)	2,835,000	595,000
Section 108 Loan Guarantee notes payable	645,000		(395,000)	250,000	250,000
Payable CRIM-Law 42	3,513,359		(105,753)	3,407,606	112,398
Payable CRIM-Law 146	306,209		(17,012)	289,197	17,012
CRIM Property Tax Advances 2014-2015 settlement		115,721		115,721	
Compensated absences	3,287,372	601,584	(379,985)	3,508,971	380,217
Claims and judgments	13,000	40,000		53,000	13,000
Landfill obligation	14,854,846	917,180		15,772,026	
Special Obligation Bond Anticipation Note-GDB Line of Credit	3,194,492	625,170		3,819,662	
Christmas Bonus	476,813	479,778	(476,813)	479,778	479,778
Total	**$ 71,209,091**	**$ 16,614,433**	**$ (4,427,563)**	**$ 83,395,961**	**$ 4,684,905**

B. Legal debt margin

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

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10. LONG-TERM LIABILITIES (CONTINUED)

C. General and special obligation bonds and notes

The Municipality issues general and special obligation bonds to provide funds for the acquisition of equipment and construction of major capital facilities. During the current year, the Municipality issued bonds for $5,975,000, $4,530,000 and $2,305,000. Bonds payable outstanding at June 30, 2015 are as follows:

Bonds Payable

Description	Balance at June 30, 2015
1994 Serial bond for infrastructure construction with an original amount of $663,000 due in annual installments of $15,000 to $47,000, through January 1, 2018, with interest of 5.0%	$ 134,000
1994 Serial bond for infrastructure construction with an original amount of $465,000 due in annual installments of $12,000 to $32,000 through January 1, 2018, with interest of 5.0%	92,000
1998 General obligation bond for the acquisition of a capital asset with an original amount of $1,015,000 due in installments of $10,000 to $85,000, through July 1, 2022, with interest ranging from 4.9% to 6.7%	540,000
1999 General obligation bond for the acquisition of a capital asset with an original amount of $685,000 due in installments of $10,000 to $60,000 through July 1, 2023, with interest ranging from 2.7% to 7.8%	385,000
2000 General obligation bond for improvements of a capital asset with an original amount of $355,000 due in installments of $5,000 to $30,000 through July 1, 2019, with interest ranging from 2.7% to 7.8%	140,000
2001 General obligation bond for construction of capital assets with an original amount of $270,000 due in installments of $5,000 to $25,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	180,000
2001 General obligation bond for the acquisition of property with an original amount of $1,010,000 due in installments of $15,000 to $90,000 through July 1, 2025, with interest ranging from 2.7% to 6.1%	675,000
2002 General obligation bond for construction of infrastructure and improvements to a capital asset with an original amount of $255,000 due in installments of $10,000 to $30,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	55,000
2002 General obligation bond for construction and improvements of capital assets with an original amount of $1,120,000 due in installments of $45,000 to $125,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	235,000

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10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2002 General obligation bond for improvements of capital assets with an original amount of $835,000 due in installments of $25,000 to $85,000 through July 1, 2018, with interest ranging from 2.7% to 5.1%	$ 300,000
2002 General obligation bond for improvements of a capital asset with an original amount of $125,000 due in installments of $5,000 to $20,000 through July 1, 2016, with interest ranging from 2.7% to 5.0%	30,000
2002 General obligation bond for improvements of a capital asset with an original amount of $255,000 due in installments of $5,000 to $20,000 through July 1, 2026, with interest ranging from 2.7% to 5.6%	175,000
2003 General obligation bond for improvements of a capital asset with an original amount of $235,000 due in installments of $10,000 to $25,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	65,000
2003 General obligation bond for improvements of a capital asset with an original amount of $325,000 due in installments of $15,000 to $35,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	95,000
2003 General obligation bond for the acquisition of a capital asset with an original amount of $85,000 due in installments of $5,000 to $10,000 through July 1, 2017, with interest ranging from 4.2% to 5.0%	25,000
2003 General obligation bond for construction and improvements of various capital assets with an original amount of $1,110,000 due in installments of $15,000 to $85,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	780,000
2003 General obligation bond for infrastructure construction and improvements with an original amount of $1,415,000 due in installments of $25,000 to $115,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	1,000,000
2003 General obligation bond for the construction of a capital asset with an original amount of $205,000 due in installments of $5,000 to $15,000 through July 1, 2027, with interest ranging from 4.2% to 5.3%	145,000
2004 General obligation bond for infrastructure improvements with an original amount of $205,000 due in installments of $10,000 to $25,000 through July 1, 2018, with interest ranging from 2.4% to 4.8%	70,000
2004 General obligation bond for acquisition of property with an original amount of $140,000 due in installments of $5,000 to $10,000 through July 1, 2028, with interest ranging from 2.4% to 5.3%	85,000
2005 General obligation bond for property acquisition with an original amount of $160,000 due in installments of $5,000 to $10,000 through July 1, 2029, with interest ranging from 3.3% to 5.3%	110,000
2005 General obligation bond for infrastructure improvements with an original amount of $330,000 due in installments of $10,000 to $25,000 through July 1, 2024, with interest ranging from 4.2% to 5.3%	205,000
2005 General obligation bond for acquisition of a capital asset with an original amount of $1,210,000 due in installments of $25,000 to $80,000 through July 1, 2029, with interest ranging from 4.2% to 5.3%	895,000
2005 Special obligation bond for the payment of debt with an original amount of $1,698,000 due in installments of $75,000 to $145,000 through July 1, 2019, with interest ranging from 1.53% to 6.62%	679,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2006 General obligation bond for improvements of a capital asset with an original amount of $125,000 due in installments of $5,000 to $15,000 through July 1, 2020, with interest ranging from 1.5% to 6.6%	$ 65,000
2006 General obligation bond for property acquisition with an original amount of $135,000 due in installments of $5,000 to $10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	90,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $145,000 due in installments of $5,000 to $10,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	100,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $305,000 due in installments of $5,000 to $25,000 through July 1, 2030, with interest ranging from 4.2% to 5.3%	245,000
2006 General obligation bond for the construction and improvements of capital assets with an original amount of $905,000 due in installments of $25,000 to $75,000 through July 1, 2025, with interest ranging from 4.2% to 5.3%	615,000
2006 General obligation bond for infrastructure improvements with an original amount of $1,010,000 due in installments of $45,000 to $95,000 through July 1, 2020, with interest ranging from 4.2% to 4.8%	500,000
2006 General obligation bond for acquisition of a capital asset with an original amount of $5,755,000 due in installments of $95,000 to $445,000 through July 1, 2030, with interest ranging from 1.5% to 6.6%	4,610,000
2007 General obligation bond for infrastructure construction with an original amount of $1,010,000 due in installments of $70,000 to $135,000 through July 1, 2016, with interest ranging from 1.5% to 7.0%	260,000
2008 General obligation bond for acquisition of capital assets with an original amount of $1,235,000 due in installments of $20,000 to $100,000 through July 1, 2032, with interest ranging from 1.53% to 7.25%	1,070,000
2009 General obligation bond for the construction and improvement of infrastructure with an original amount of $1,010,000 due in installments of $70,000 to $135,000 through July 1, 2018, with interest ranging from 1.53% to 7.25%	490,000
2010 General obligation bond for the construction of a capital asset with an original amount of $1,335,000 due in installments of $95,000 to $185,000 through July 1, 2019, with interest ranging from 5.0% to 7.5%	790,000
2010 General obligation bond for the construction of a capital asset with an original amount of $650,000 due in installments of $5,000 to $55,000 through July 1, 2034, with interest ranging from 5.0% to 7.5%	600,000
2010 General obligation bond for construction of infrastructure with an original amount of $505,000 due in installments of $20,000 to $55,000 through July 1, 2024, with interest ranging from 5.0% to 7.5%	395,000
2010 General obligation bond for the acquisition of various capital assets with an original amount of $3,750,000 due in installments of $50,000 to $315,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	3,430,000
2010 General obligation bond for the construction of a capital asset with an original amount of $3,165,000 due in installments of $40,000 to $265,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	2,905,000
2011 General obligation bond for infrastructure construction with an original amount of $2,015,000 due in installments of $40,000 to $185,000 through July 1, 2030, with interest ranging from 6.0% to 7.5%	1,810,000
2011 General obligation bond for construction of a capital asset with an original amount of $630,000 due in installments of $10,000 to $60,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	590,000

10. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance at June 30, 2015
2011 General obligation bond for acquisition of a capital asset with an original amount of $1,015,000 due in installments of $10,000 to $85,000 through July 1, 2035, with interest ranging from 6.0% to 7.5%	$ 955,000
2011 Special obligation bond for infrastructure improvements with an original amount of $6,030,000 due in installments of $230,000 to $640,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	5,000,000
2011 Special obligation bond for construction and improvements of infrastructure with an original amount of $505,000 due in installments of $20,000 to $55,000 through July 1, 2025, with interest ranging from 6.0% to 7.5%	420,000
2012 Special obligation bond for construction and improvements of infrastructure with an original amount of $3,420,000 due in installments of $145,000 to $330,000 through July 1, 2027, with interest ranging from 6.0%	3,120,000
2013 General obligation bond for construction and improvement of infrastructure with an original amount of $685,000 due in installments of $10,000 to $55,000 through July 1, 2037, with interest ranging from 6.0% to 7.5%	665,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,010,000 due in installments of $40,000 to $105,000 through July 1, 2028, with interest ranging from 6.0% to 7.5%	970,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,670,000 due in installments of $20,000 to $140,000 through July 1, 2038, with interest ranging from 6.0% to 7.5%	1,650,000
2014 General obligation bond for construction and improvement of infrastructure with an original amount of $1,640,000 due in installments of $20,000 to $140,000 through July 1, 2039, with interest ranging from 6.0% to 7.5%	1,615,000
2015 General obligation bond for construction and improvement of infrastructure with an original amount of $5,975,000 due in installments of $135,000 to $545,000 through July 1, 2034, with interest ranging from 6.0% to 7.5%	5,975,000
2015 General obligation bond for construction and improvement of infrastructure with an original amount of $2,305,000 due in installments of $85,000 to $250,000 through July 1, 2029, with interest ranging from 7.0% to 8.0%	2,305,000
2015 General obligation bond for construction and improvement of infrastructure with an original amount of $4,530,000 due in installments of $226,500 through July 1, 2034, with interest ranging from 5-9% to 8.0%	4,530,000
Total	**$ 52,865,000**

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10. LONG-TERM LIABILITIES (CONTINUED)

These bonds are payable from the special ad valorem property tax of 3.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes, except the 2005 Series $1,698,000 bond, which is payable with General Fund resources. The Series 2011 and 2012 amounting $6,030,000 and $505,000, respectively, are payable with the revenues generated from the collection of the .2% of the municipal sales and use tax imposed by the Municipality and collected by the Commonwealth of Puerto Rico Treasury Department.

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

Year Ending June 30 ,2015	Principal	Interest
2016	$ 2,837,500	$ 2,716,546
2017	3,074,500	3,424,008
2018	2,932,500	3,237,030
2019	2,971,500	3,047,581
2020	2,886,500	2,858,494
2021-2025	14,637,500	11,455,405
2026-2030	13,347,500	6,366,747
2031-2035	8,867,500	2,278,560
2036-2040	1,310,000	181,335
Total	**$ 52,865,000**	**$ 35,565,706**

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10. LONG-TERM LIABILITIES (CONTINUED)

Notes Payable

The proceeds of the issuance of notes payables were used principally to pay debt incurred in prior years and to cover the expenditures of a special event. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2015
2009 Series	7-1-16	505,000	1.53% to 7.25%	$ 95,000
2010 Series	7-1-16	1,115,000	5% to 7.5%	380,000
2011 Series	7-1-18	155,000	6% to 7.5%	75,000
2013 Series	7-1-19	230,000	6% to 7.5%	180,000
2014 Series	7-1-20	1,215,000	6% to 7.5%	1,080,000
2015 Series	7-1-21	1,025,000	7% to 8%	1,025,000
Total notes payable				**$ 2,835,000**

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

Year Ending June 30,	Principal	Interest
2016	$ 595,000	$ 157,812
2017	545,000	151,800
2018	370,000	116,837
2019	370,000	88,387
2020	395,000	58,950
2021-2025	560,000	36,275
Total	**$ 2,835,000**	**$ 610,061**

These notes are payable from the special ad valorem property tax of 3.75% which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes. During the current year, the Municipality issued notes for $1,025,000.

D. Section 108 Loan Guarantee notes payable - The Municipality entered into various financing agreements with the U.S. Department of Housing and Urban Development (HUD) through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Act of 1974, as amended. The payment of principal and interest of these notes are made from appropriation of funds from the Community Development Block Grants/Entitlement Grants Program and from the program income generated from the projects financed with the loans. The notes are payable as follows:

Type of notes	Maturity Date	Original Amount	Range of Interest rates	Balance at June 30, 2015
Section 108 – 2000 Series	8-1-15	1,310,000	1.8% to 2.20%	$ 250,000
Total notes payable				**$ 250,000**

10. LONG-TERM LIABILITIES (CONTINUED)

E. Payable to CRIM – property tax advances - The CRIM advances funds to the Municipality based on an estimate of special governmental subsidies and the property taxes to be levied and which are collected in subsequent periods. 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. If actual collections exceed the advances, a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. The preliminary settlement made by CRIM for the fiscal year 2014-2015 reported an excess of advances over actual collections. The resulting payable will be amortized in the 2016-2017 fiscal year through withholdings from the monthly advances to be received by the Municipality in that fiscal year. The outstanding amount of the debt is $115,721.

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

Year Ending June 30 ,2015	Principal	Interest
2016	$ 112,398	$ 209,133
2017	119,460	202,071
2018	126,966	194,565
2019	134,944	186,588
2020	143,422	178,109
2021	152,434	169,097
2022	162,012	159,520
2023	172,191	149,340
2024	183,010	138,521
2025	194,509	127,022
2026	206,731	114,801
2027	219,720	101,811
2028	233,525	88,006
2029	248,198	73,333
2030	263,793	57,738
2031	280,368	41,164
2032	297,984	23,547
2033	155,941	4,824
Total	**$ 3,407,606**	**$ 2,219,190**

10. LONG-TERM LIABILITIES (CONTINUED)

G. **Note payable to CRIM (Law No. 146) -** On July 7, 2007, the Municipality entered into a restructured financing agreement with the CRIM in the amount of $425,339, to finance the remaining balance of delinquent property tax accounts sold to private investors, under the provision of Law No. 146 of October 11, 2001. The original agreement signed in July 2002 was in the form of a non-revolving line of credit bearing interest of 6.5% for the first five years and variable for the next twenty-five years at 125 points over London Interbank Offered Rate (LIBOR). As described in Law No. 146, interest payments for the first five years were financed through .48% of the net increase of subsidy provided by the Commonwealth of Puerto Rico's general fund. Also, during the first five years, any collection from those delinquent accounts was credited to the loan principal. After the five year period, the loan outstanding balance was restructured for a twenty-five years period at an interest rate of 2.50% ending on March 31, 2032. Debt service requirements in future years are as follows:

Year Ending June 30 ,2015	Principal	Interest
2016	$ 17,011	$ 7,241
2017	17,011	6,815
2018	17,011	6,389
2019	17,011	5,963
2020	17,011	5,537
2021	17,011	5,111
2022	17,011	4,685
2023	17,011	4,259
2024	17,011	3,833
2025	17,011	3,407
2026	17,011	2,981
2027	17,011	2,555
2028	17,011	2,129
2029	17,011	1,703
2030	17,011	1,277
2031	17,011	851
2032	17,011	425
Total	**$ 289,187**	**$ 65,161**

H. **Cristmas Bonus -**represents the accrued portion corresponding to the fiscal year 2015 of the Christmas bonus to be paid in December 2015. The outstanding amount is 479,778.

I. **Compensated Absences-** The government-wide statement of net assets includes approximately $1,738,579 of accrued sick leave benefits, and approximately $1,770,392 of accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations.

10. LONG-TERM LIABILITIES (CONTINUED)

J. Landfill Obligation- State and federal laws and regulations require the Municipality to place a final cover on its landfill site, when it stopped accepting waste, and perform certain maintenance and monitoring functions at the site for 30 years after closure. In accordance with Statement No. 18 of the GASB, "Accounting for Municipal Solid Waste Landfill Closure and Post-closure Care Costs", the Municipality has performed a study of the activities that need to be implemented at the Municipality's landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations.

Based on this study, the Municipality has recognized $15,772,026 as the Municipality's estimated current cost for landfill closure and post-closure costs as of June 30, 2015. The annual estimate of post closure costs has been assessed approximately to be $725,000 for a period of approximately 30 years. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations. The balance of closure and post-closure costs are reported in the government-wide statement of net assets.

K. Special Obligation Bond Anticipation Note-GDB Line of Credit -The Municipality established a non-revolving line of credit with the Government Development Bank of Puerto Rico (GDB), for up to $4,850,000 as defined in the GDB loan agreement with the Municipality. The line of credit was made available to finance the improvements of the Municipal Hospital. Amounts drawn against the line of credit are repayable at the credit line maturity date. The credit line bears interest at a fixed interest rate of 4.625%. Maturity date is due on July 6, 2016. As of June 30, 2015, outstanding credit line balance was $3,819,662. Interest expense incurred on the credit line was $129,500 during the year ended on June 30, 2015. At the maturity date the Municipality intents to liquidate these note with the issuance of a revenue bond.

11. DEFERRED INFLOWS OF RESOURCES – GOVERNMENTAL FUNDS

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

	Commonwealth Government	Federal Government
General Fund:		
PR Department of Transportation and Public Work	$ 465,139	$ -
PR Department of Treasury	222,842	
Other governmental funds:		
P.R. Department of Labor – Law No. 52	138,750	
P.R. Department of Education		707,993
U.S. Department of Transportation		11,163
Total	**$ 826,731**	**$ 719,156**

12. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment, collection and distribution of real and personal property taxes. The tax on personal property is self-assessed by the taxpayer. The assessment is made on a return, which must be filed with the CRIM by May 15 of each year and is based on the current value at the date of the assessment. Real property is assessed by the CRIM. The tax is general assessed on January 1 on all taxable property located within the Municipality and is based on the current value existing in the year 1957. For personal property the tax is due with the return filed on or before May 15. Taxes on real property may be paid on two equal installments, July 1st and January 1st. Total tax rates in force as of June 30, 2015 are 8.58% for personal property and 10.58% for real property. The distribution of these rates follows:

Description	Personal Property	Real Property
Basic property tax rate, which is appropriated for general purposes and accounted in the Municipality's general fund:	4.00%	6.00%
Percent that belongs to the Commonwealth's debt service fund:	1.03%	1.03%
Percent that belongs to the Municipality's debt service fund:	3.75%	3.75%
Total tax rate:	8.78%	10.78%
Discount granted by law to the taxpayers but reimbursed to the Municipality by the P.R. Treasury Department:	(.20%)	(.20%)
Total percent to be paid by taxpayers:	**8.58%**	**10.58%**

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

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

The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. The CRIM prepares a preliminary settlement not later than three months after fiscal year-end and a final settlement not later than six months after fiscal year-end. If actual collections exceed the advances a receivable from CRIM is recorded. However, if advances exceed actual collections, a payable to CRIM is recorded. This amount is recorded as long term debt.

On December 9, 2013, Law No. 145 "Getting Caught Up with Past Due CRIM Taxes – Incentive Plan for the Payment of Due Taxes" was approved granting an amnesty from the payment of interest, surcharges and penalties on real and personal property taxes owed from the fiscal years prior to 2013-2014. This amnesty/incentive plan was available from December 18, 2013 to March 27, 2014. This plan also awarded CRIM the faculty to grant payment plans to taxpayers up to a maximum of four years. During the fiscal year 2014-2015, the Municipality received revenues from this property tax amnesty in the amount of $16,202.

13. SALES AND USE TAX

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

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

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

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

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014, the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of inancing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances.

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

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

13. SALES AND USE TAX (CONTINUED)

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

- .2% will be deposited in the Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to then be deposited in the municipalities general fund (the municipalities have the option to maintain funds in the Municipal Redemption Fund or to transfer funds from the Municipal Development Fund to increase its debt margin and issue loans to be obtained from financial institutions)
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

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

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

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

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

13. SALES AND USE TAX (CONTINUED)

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

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

For the FDM and FRM transfers, the advance system became effective on July 1, 2014; for the 1% municipal sales and use tax, the effective date varied depending on the implementation date of COFIM's collection process in the corresponding municipality. For the **Autonomous Municipality of Cayey**, the implementation date was December,1 2014. For the fiscal year ended on June 30, 2015, the Municipality's total FDM, FRM and 1% sales and use tax advances amounted to $304,218, $607,671 and $3,479,978 respectively. The GDB has not yet issued a final settlement for the advances made in the 2014-15 fiscal year.

14. PENSION PLAN

General Information about the Pension Plan

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

Under Act 447, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of $200 per month and a maximum of 75% of the average compensation. For active participants

14. PENSION PLAN (CONTINUED)

of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

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

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of $5,000. Therefore, the maximum monthly employee contribution will be $12.50 ($5,000 x .25%).

Beginning July 1, 2013, all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016, an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to $492,005.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer. The Municipality's AUC for the fiscal year 2014-15, amounted to $123,704.

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

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

14. PENSION PLAN (CONTINUED)

However, as indicated in the Basis for Qualified Opinion section of the independent auditors' report, the ESR has not provided to the Municipality the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015. As a result, management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68. The ESR has informed its participating employers that the audited actuarial and financial data will be available in a future date during the calendar year 2016. The effects of this departure from U.S. generally accepted accounting principles in the assets, liabilities, deferred outflows/inflows of resources and net position of the Municipality's governmental activities cannot be determined at this time.

15. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in note 14, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas bonuses and death benefits. However, beginning July 1, 2013, Act No. 3 of 2013 eliminated all Special Law benefits to future retirees.

For the fiscal year ended June 30, 2015, the costs related to these post-employment benefits amounted to $467,923. These benefits are recorded as expenditures in the general fund.

16. COMMITMENTS AND CONTINGENCIES

a. Federal Grants:

The Municipality participates in a number of federal financial assistance programs funded by the Federal Government. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1996, through June 30, 2015, these programs are still subject to financial and compliance audits by the granting agencies and the resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by such audits cannot be determined at this time, although the Municipality management expects such amounts, if any, not to be material.

b. Claims and lawsuits:

The Municipality is a defendant in a number of lawsuits arising principally from claims against the Municipality for alleged improper actions, and other legal matters that arise in the ordinary course of the Municipality's activities.

With respect to pending and threatened litigation, the Municipality has reported liabilities of approximately $53,000 for awarded or anticipated unfavorable judgments in the Government–Wide financial statements. This amount was included in the financial statements and represents the amount estimated as a probable liability or a liability with a fixed or expected due date, which will require future available financial resources for its payment.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

c. Other Commitments:

At June 30, 2015, the general fund had commitments of approximately $ 6,478,847 for executory purchase orders or contracts that will be honored during the subsequent year. Purpose classification as follows:

Purpose	General Fund assigned fund balance
General government	$ 5,243,160
Health and welfare	313,334
Public works	471,288
Public safety	179,788
Culture and recreation	187,812
Education	83,465
Total	$ 6,478,847

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17. RESTATEMENT OF NET POSITION

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

a. Government-Wide Financial Statements

Description	Government-Wide Statement
Net position, at beginning of year, as previously reported	$ 96,322,948
Correction of errors:	
Understatement of due from Commonwealth Government	221,464
Overstatement of note payable to PREPA	969,714
Understatement of Christmas bonus debt	(476,813)
Net position - beginning, as restated	$ 97,037,313

18. SUBSEQUENT EVENTS

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working group proposes the implementation of a control board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the control board, have been submitted to the Commonwealth Legislature for review and final approval.

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

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

In addition to these energy consumption limits, the CELI will not be applicable to every municipal property or installation. It will only be available for those facilities used for the rendering of not – for- profit services to

18. SUBSEQUENT EVENTS (CONTINUED)

the community; for corporations that provide public health services; and for the consumption charges incurred by the public lighting infrastructure. Those municipal installations and properties used for for-profit activities or occupied by not-for-profit entities that do not provide municipal services or by persons and businesses that are not municipal entities are excluded from the CELI subsidy.

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

Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget. During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

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	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (Budgetary Basis) (See Note 1)	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes:				
Property taxes	$ 8,604,296	$ 8,604,296	$ 8,620,498	$ 16,202
Municipal license tax	6,980,000	6,980,000	6,591,933	(388,067)
Municipal sales and use tax	3,630,000	3,630,000	3,693,539	63,539
Licenses, permits and other local taxes	1,625,000	1,625,000	478,801	(1,146,199)
Charges for services	3,965,057	3,965,057	4,645,971	680,914
Intergovernmental:				
Commonwealth Government	3,590,773	3,590,773	4,651,762	1,060,989
Fines and forfeiture	100,000	100,000	6,588	(93,412)
Rent of property	1,067,000	1,067,000	803,162	(263,838)
Interest	215,000	215,000	992,496	777,496
Miscellaneous	670,000	670,000	782,562	112,562
Total revenues	30,447,126	30,447,126	31,267,312	820,186
Budget carryover (1)		4,499,019		(4,499,019)
Total revenues	30,447,126	34,946,145	31,267,312	(3,678,833)
EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:				
Current:				
General government	16,371,267	20,201,292	15,070,862	5,130,430
Public safety	673,237	675,629	431,628	244,001
Public works	4,423,277	4,640,832	4,007,511	633,321
Health and welfare	6,256,004	6,514,987	5,649,072	865,915
Culture and recreation	1,243,407	1,342,929	1,161,874	181,055
Community development	337,486	342,653	180,702	161,951
Education	842,447	880,198	491,237	388,961
Debt service:				
Principal	131,188	155,000	155,000	-
Interest	168,813	192,625	192,625	-
Total expenditures, encumbrances and other financing uses	30,447,126	34,946,145	27,340,511	7,605,634
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)	$ -	$ -	$ 3,926,801	$ 3,926,801

Explanation of Differences:

Sources/inflows of resources:

Actual amounts (budgetary basis)"available for appropriation" from the budgetary comparison schedule	$	31,267,312
Differences-budget to GAAP:		
Revenues in budget and not in GAAP		(1,961,027)
Revenues in GAAP and not in Budget		270,068
Non-budgeted funds recorded as revenues for financial reporting purposes		4,141
Total revenues and other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances	$	29,580,494

Uses/outflows of resources:

Actual amounts (budgetary basis)"total charges to appropriations" from the budgetary comparison schedule	$	27,340,511
Differences-budget to GAAP:		
Prior year encumbrances		1,106,196
Current year encumbrances		(2,124,983)
Expenditures in GAAP & not in budget		1,635
Non-budgetes funds recorded as expenditures for financial purposes		283,129
Total expenditures and other financing uses as reported on the statement of revenues, expenditures, and changes in fund balances	$	26,606,488

(1) Represents fund balance carried over from prior year.

See notes to the Budgetary Comparison Schedule-General Fund.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Control

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

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

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

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

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ASSETS		
Current assets cash:		
Cash -unrestricted	$	129,424
Cash -other restricted		3,636
Total current assets		133,060
Capital assets		
Furniture, equipment & machinery-Administration		29,228
Less: Accumulated depreciation		(29,228)
Total capital assets, net of accumulated depreciation		-
Total assets	$	133,060
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities		
Accounts payable <=90 days	$	3,736
Accounts payable -Other government		19,871
Non-current liabilities FSS		
Total liabilities		23,607
Equity		
Net investment in capital assets		
Restricted net position		
Unrestricted net position		113,389
Total equity-net position		109,453
Total liabilities and net position	$	133,060

See notes to the Financial Data Schedule.

Revenues	
Housing assistance payments	$ 1,049,991
Administrative fees	154,904
Total HUD PHD operating revenues	1,204,895
Fraud Recovery	2,660
Other Revenues	39,551
Total revenues	1,247,106
Expenses	
Operating-Administrative expenses	
Administrative salaries	100,910
Auditing Fees	2,930
Employee-benefit contributions-Administrative	27,695
Other general expenses	10,663
Total operating expenses	142,198
Housing assistance payments	1,088,739
HAP Portability-in	31,538
Total expenses	1,262,475
Other financing sources (uses)	
Transfer in	36,088
Transfer out	(36,088)
Excess (deficiency) of total revenue over (under) total expenses	(15,369)
Total net position, beginning	128,758
Total net position, ending	$ 113,389

See notes to the Financial Data Schedule.

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct Programs:			
Rural Housing Preservation Grant	10.433		$ 2,339
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Child and Adult Care Food Program	10.558	Not Available	511,177
Total U.S. Department of Agriculture			**513,516**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Direct Programs:			
Community Development Block Grants – Entitlement Grants	14.218		971,686
Emergency Shelter Grants Program	14.231		178,071
Section 8 Housing Choice Voucher	14.871		1,204,895
Pass-through the Commonwealth of Puerto Rico - Public Housing Administration:			
Public and Indian Housing	14.850	Not Available	649,233
Pass-through the Commonwealth of Puerto Rico– Municipality of San Juan:			
Housing Opportunities for Persons with AIDS	14.241	Not Available	23,037
Total U.S. Department of Housing and Urban Development			**3,026,922**
U.S. DEPARTMENT OF TRANSPORTATION:			
Direct Programs:			
Federal Transit – Formula Grants	20.507		144,874
Total U.S. Department of Transportation			**144,874**

The accompanying notes are an integral part of this schedule.

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the Commonwealth of Puerto Rico – Department of Education:			
Twenty-First Century Community Learning Centers	84.287	Not Available	1,690,484
Total U.S. Department of Education			**1,690,484**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through the Commonwealth of Puerto Rico – Governor's Office (Elderly Office):			
Special Program for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044	Not Available	85,534
Pass-through the Commonwealth of Puerto Rico – Family Department:			
Child Care and Development Block Grant	93.575	Not Available	136,818
Head Start Program	93.600	Not Available	5,767,402
Total U.S. Department of Health and Human Services			**5,989,754**
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through the Commonwealth of Puerto Rico – Governor's Authorized Representative Office (GAR):			
Disaster Grants-Public Assistance	97.036	Not Available	190,793
Total U.S. Department of Homeland Security			**190,793**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$11,556,343**

The accompanying notes are an integral part of this schedule.

A. BASIS OF PRESENTATION:

Expenditures reported on the Schedule are reported on the modified-accrual basis of accounting, except for Section 8 Housing Choice Voucher Program (HCV). Expenditures are recognized when the related liability is incurred following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for HCV Program are reported on a statutory basis as required by the U.S. Department of Housing and Urban Development. Such expenditures should equal the net ACC subsidy for the PHA's fiscal period.

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

State or local government redistributions of federal awards to the Municipality, known as "pass–through awards", should be treated by the Municipality as though they were received directly from the federal government. OMB Circular A-133 requires the schedule to include the name of the pass–through entity and the identifying number assigned by the pass-through entity for the federal awards received as a sub recipient. Numbers identified as N/A are not applicable and numbers identified as N/AV are not available.

B. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

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

Description	Head Start Fund	Other Governmental Funds	Total
Per Schedule of Expenditures of Federal Awards	$6,278,579	$ 5,277,764	$ 11,556,343
Additional amount recorded as expenditures under modified accrual basis for Section 8 HCV Program		50,174	50,174
Non-federal awards expenditures	56,948	8,049,195	8,106,143
Total expenditures in the fund financial statements	$6,335,527	$ 13,377,133	$ 19,712,660

López-Vega, CPA, PSC
Certified Public Accountants / Management Advisors

Member of:
- American Institute of Certified Public Accountants
- Puerto Rico Society of Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Cayey**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Autonomous Municipality of Cayey**'s basic financial statements and have issued our report thereon dated November 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'s internal control. Accordingly, we do not express an opinion on the effectiveness of the **Autonomous Municipality of Cayey**'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items **2015-001** and **2015-002** that we consider to be significant deficiencies.

Calle Paraná #1686, El Cerezal, San Juan, P.R. 00926-3144 – Tel. (787) 777-8044 / Fax (787) 764-9377

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Autonomous Municipality of Cayey**'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item **2015-001.**

Autonomous Municipality of Cayey's **Response to Findings**

Autonomous Municipality of Cayey's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Cayey**'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

López-Vega, CPA, PSC

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 30, 2015

Stamp No. 2705490 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

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

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'s major federal programs for the year ended June 30, 2015. The **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'s compliance.

Opinion on Each Major Federal Program

In our opinion, the **Autonomous Municipality of Cayey** 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items **2015-003** through **2015-007**. Our opinion on each major federal program is not modified with respect to these matters.

The **Autonomous Municipality of Cayey**'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The **Autonomous Municipality of Cayey**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the **Autonomous Municipality of Cayey** 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 **Autonomous Municipality of Cayey**'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 **Autonomous Municipality of Cayey**'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 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as items **2015-003** through **2015-007**, which we consider to be significant deficiencies.

The **Autonomous Municipality of Cayey**'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. **Autonomous Municipality of Cayey**'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
November 30, 2015

Stamp No. 2745491 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Qualified for GWFS; Unmodified for FFS	
Internal control over financial reporting:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	No
Noncompliance material to financial statements noted?	Yes X	No

Federal awards

Internal Control over major programs:		
Material weakness identified?	Yes	No X
Significant deficiencies identified not considered to be material weaknesses?	Yes X	No
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes X	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant – Entitlement Program
14.871	Section 8 Housing Choice Voucher Program
84.287	Twenty-First Century Community Learning Centers
93.600	Head Start Program
97.036	Disaster Grants-Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs	$346,690	
Auditee qualified as low-risk auditee?	Yes	No X

Section II – Financial Statements Findings

This significant deficiency in internal controls is considered an instance of noncompliance (NC).

Finding Reference	**2015-001**
Requirement	**Recognition and Reporting of Net Pension Liability – Cost Sharing Pension Plans (NC)**
Statement of Condition	Management has not complied with the accounting and financial reporting requirements for pensions that are provided to the employees of state and local governmental employers through pension plans trusts that comply with the criteria set forth in the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the Municipality's governmental activities has not been determined. In addition, the Municipality's financial statements do not disclose the descriptive information about the pension plans through which the pensions are provided required by the GASB Statement No. 68 for cost-sharing employers. Also, management has omitted historical pension information that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements.
Criteria	GASB Statement No. 68 states the accounting and financial reporting requirements for pension plans provided to employees of state and local governments that are administered through cost-sharing pension plan trusts that comply with the criteria set forth in the Statement. This requires that the Municipality report in its financial statements its proportionate share of the collective net pension liability, pension expense and deferred outflows and inflows of resources related to pensions as of the measurement date. It also requires detailed disclosures related to the actuarial and financial information used in the calculation of the net pension liability and the reporting of historical pension data as Required Supplementary Information.
Cause of Condition	The Municipality's pension plan administrator has not provided the audited actuarial and financial information necessary for the proper recognition and reporting of its net pension liability as of June 30, 2015.
Effect of Condition	The Municipality's Government-Wide Financial Statements does not present fairly the financial position of the governmental activities, and the change in financial position of the Municipality.

Section II – Financial Statements Findings

Finding Reference	**2015-001 (Continued)**
Recommendation	We recommend the Municipality maintains a constant communication with the pension plan's administrator, the Commonwealth's Employees Retirement System Administration, in order to obtain the necessary audited actuarial and financial information necessary to comply with the requirements of the GASB Statement No. 68.
Questioned Cost	None
Management Response and Corrective Action	We concur with the auditors' recommendations. The Municipality is closely monitoring the actions of the Commonwealth's Employees Retirement System Administration in order to make sure to obtain the audited information required by this standard. Implementation Date: During the 2015-2016 fiscal year Responsible Persons: Mr. Edwin Quiles Rosario Finance Department Director

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Section II – Financial Statements Findings

Finding Reference	**2015-002**
Requirement	**Financial Reporting – Accounting Records**
Statement of Condition	During our examination of the Municipality's accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified-accrual basis financial statements. Also, the accounting system does not offer subsidiaries to produce government-wide financial statements. The computerized system provided by the Office of the Commissioner for Municipal Affairs (OCAM) and manual system maintained by Finance Department personnel do not provide financial information to generate the basic financial statements since the beginning balances were not properly presented in the accounting system. Therefore, the Municipality's hires the professional services of local accounting firms to perform the required adjustment entries to convert its accounting records from cash basis to modified and then to accrual basis and compile the necessary information as required by GAAP and the Law No. 81.
Criteria	Chapter VIII, Article 8.010 of State Act Number 81 of August 30, 1991, states that the Municipality should maintain an effective and updated accounting system.
Cause of Condition	The Municipality did not establish effective internal control over the transactions recorded on its accounting records. Also, the accounting data is not summarized in the form of a double-entry General Ledger record.
Effect of Condition	The Municipality's accounting system does not provide updated and complete financial information that presents the financial position and the result of operations and the change in fund balances. Such information is necessary to take management decisions.
Recommendation	We recommend the Municipality's Management to implement internal control and procedures in order to maintain a double entry accounting system that contains accurate information pertaining to authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, interfund transactions, etc.
Questioned Costs	None
Management Response and Corrective Action	The Municipality maintains two set of accounting records; a manual system and a computerized system provided by the Office of the Commissioner for Municipal Affairs (OCAM). Actually, all of the transactions were recorded in both systems, but the manual system is the primary financial record for financial statements preparation purposes at the end of each fiscal year due to the fact that the computerized system real accounts balances carried forward from prior years were affected by accounting errors in the first years of the system operation.

Section II – Financial Statements Findings

Finding Reference **2015-002 (Continued)**

Management Response and Corrective Action

Nevertheless, as part of the corrective action plan, the Commissioner for Municipal Affairs ("OCAM") considers alternatives to improve the accounting system, including the acquisition of new accounting software, and therefore, we will hope to solve our accounting system condition in a near future.

Implementation Date:	Not available at this moment
Responsible Person:	Mr. Edwin Quiles Rosario Finance Department Director

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Section III - Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2015-003**
Program	**Section 8 Housing Choice Vouchers Program (CFDA 14.871) U.S. Department of Housing and Urban Development**
Requirement	**Special test-Waiting List**
Statement of Condition	We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2014-2015. In our test, we identified some participants admitted to the program that were included in the Waiting List. Also, HUD identified deficiencies related to selection from waiting list presented in the SEMAP certification. Finally, one participant admitted to the program was not included in the Waiting List.
Criteria	24 CFR, Subpart E, Sec. 982.204 (c) (1) states that the PHA administrative plan must state PHA policy on when applicant names may be removed from the waiting list. The policy may provide that the PHA will remove names of applicants who do not respond to PHA requests for information or updates.
Cause of Condition	The Municipality did not follow the policy stated in the Section 8 Administrative Plan with regarding the process of updating the waiting list.
Effect of Condition	The Municipality is not in compliance with the Housing Choice Voucher Program Guidebook, Chapter 4, Section, 4.6.
Recommendation	We recommend the Municipality's Management improves its procedures in order to ensure that the Program maintains a complete and accurate waiting list and that the updating process of the waiting list will be in accordance with the Municipality's Section 8 Administrative Plan, and explanations are given when an applicant is removed from the list or skipped.
Questioned Costs	None
Management Response and Corrective Action	As part of our corrective action plan, the Program's Management will be instructed according to the auditor's recommendations. Implementation Date: Immediately Responsible Person: Mr. Ramon Figueroa Cortés Federal Programs Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2015-004**
Program	**Section 8 Housing Choice Vouchers Program CFDA (14.871); U.S. Department of Housing and Urban Development**
Requirement	**Special Test – Utility Allowance Schedule**
Statement of Condition	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2015. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rate.
Criteria	Code of Federal Regulations 24, Subpart K, Section 982.517 states that the PHA must maintain an up-to-date utility allowance schedule. The PHA must review utility rate data for each utility category on a yearly basis and must adjust its allowance schedule if there has been a rate change of ten percent or more for a utility category or fuel type since the last time utility allowance was revised.
Cause of Condition	The PHA did not follow the procedures established to review utility rate date each year.
Effect of Condition	The PHA is not in compliance with the Code of Federal Regulations 24, Subpart K, and Section 982.517.
Recommendation	The PHA should evaluate utility allowance rates each year as established in the federal regulations.
Questioned Costs	None.
Management Response and Corrective Action	Our utility allowance schedule was reviewed as of July 01, 2015.

Implementation Date:	July, 2015
Responsible Person:	Mr. Ramon Figueroa Cortés Federal Programs Department Director

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference **2015-005**

Program **Twenty First Century Community Learning Centers (CFDA. No. 84.287); U.S. Department of Education**

Requirement **Reporting - Programmatic Administration (L)**

Statement of Condition During our reporting test procedures, the Municipality's Management did not provide the Programmatic Reports requested for our examination. The Program's Coordinator informed us that these reports and their supporting documents data are maintained by the Social-Medical Research and Evaluation Center ("CIES"), entity contracted as a technical consultant to assist the Program in the tabulation and presentation of the programmatic data produced and collected by the Program's personnel. As a result, we could not verify the compliance with the reports' deadlines as established in Clause Five of the 2014-2015 grant agreement.

Criteria 45 CFR Part 80 Subtitle A Section 80.40 (b) (1) and (2), Nonconstruction performance reports; Grantees shall submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. However, performance reports will not be required more frequently than quarterly. Performance reports will contain for each grant, brief information on the following:

(i) A comparison of actual accomplishments to the objectives established for the period. Where the output of the project can be quantified, a computation of the cost per unit of output may be required if that information will be useful.

(ii) The reasons for slippage if established objectives were not met.

(iii) Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Clause Six of the 2014-2015 grant agreement establishes that the Municipality recognizes that persons duly authorized by the P.R. Department of Education or federal officials will have access and the right to examine the documents prepared or received in relation to this agreement.

Clause Fifteen of the 2014-2015 grant agreement establishes that the Municipality must retain documents generated in connection with this Agreement, for a period of five (5) years after the expiration of the same. Also, it states that the Municipality recognizes that persons duly authorized by the P.R. Department of Education or federal officials will have access and the right to examine the documents prepared or received in relation to this agreement.

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference 2015-005 (Continued)

Effect of Condition

The Program's Management is not in compliance with 45 CFR Part 80 Subtitle A Section 80.40 (b) (1) and (2), Clause Six and Fifteenth of the 2014-2015 grant agreement. Therefore, we cannot validate the programmatic reporting requirements and compliance with proposal objectives.

Recommendation

We recommend Program's Management includes, as part of its Program's year end procedures, the preparation of a binder and/or file with all the Program's fiscal and programmatic documentation, including copies of the reports filed with the P.R. Department of Education, so it can be readily available for future audits. To realize this tasks is important to establish the responsibility to a one specific employee position. This, in turn, will prevent any unnecessary interference with the current Program Year's activities.

Questioned Costs

None

Management Response and Corrective Action

Key steps have been taken by the Municipality of Cayey in order to address the inefficiencies identified by the Single Audit. Steps include:

1. Appointing a new Coordinator in the Municipality in order to fully comply with all regulations and guidelines. New Coordinator has many years of experience as the Director of the Procurement Office.

2. Previous coordinator will retain tasks related to the academic component while the transition of tasks is fully completed.

3. The Municipality and the Scientific Partner held a meeting in order to further clarify roles and to develop an action plan with the new Coordinator in order to fully comply with all requirements and regulations.

The Municipality will revise all existing documentation on file in order to guarantee that all data has been filed and is easily accessible to interested parties.

As stated in the section above the Municipality has completed key steps in order to address the findings and comments included in the document sent by the Single Audit firm.

Implementation Date: November, 2015

Responsible Person: Mrs. Wanda I. Colón, 21^{st} Century Program Coordinator

Section III – Major Federal Award Program Findings and Questioned Costs

Finding Reference	**2015-006**
Program	**Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services**
Requirement	**Reporting - Financial Administration (L)**
Statement of Condition	In our Reporting Test, we found differences between the amounts reported as federal expenditures in the Federal Financial Report SF-425 submitted to the federal agency and the amounts detailed in the trial balance. As result, the financial reports do not agree with the program accounting records. Alternate procedures are used to report the expense.
Criteria	The OMB Common Rules, Subpart C, Section .20 (b) (1), states that the grantee must maintain internal control procedures that permits proper tracing of funds to the accounting records. Also, it requires accurate, current and complete disclosure of financial results.
Cause of Condition	The required accounting system is not used as reporting source. Also, adequate internal controls do not exist to assure that the required accounting system be used and the information is reconciled with the closing reports submitted to the federal agencies.
Effect of Condition	The program is not in compliance with the Common Rules, Subpart C, Section .20 (b) (1).
Recommendation	We recommend the Program establishes monitoring procedures to ensure the accuracy of accounting records and a correct completion of the closing reports. The Program fiscal area ensures that accounting records are updated at the end of each month in order to prepare accurate reports to the federal agency. In addition, the accountant must ensure that the SAGE accounting system is used to present the financial position of the Program and as the reporting source as established by the pass-through entity.
Questioned Costs	None
Management Response and Corrective Action	Program's Director requested training to the Pass-through entity to assist them with the accounting system MIP, the training was received in September 2015. The agency system was updated and the accounting records were reconciled to agree with every request funds under the MIP system. As part of the Continuous monitoring, was given access to the Director of the Agency to access the system and verify each request for funds, in addition monitors the use and management of funds monthly. Implementation Date: September, 2015 Responsible Person: Mrs. Idenisse Diaz, Head Start Director Mrs. Janise A. Colón, Head Start Accountant

Finding Reference **2015-007**

Program **Head Start Program (CFDA. No. 93.600); U.S. Department of Health and Human Services**

Requirement **Matching, Level of Effort, Earmarking – Administrative Cost Limits (G)**

Statement of Condition

We could not verify the Program compliance with the administrative cost limitation of the fifteen percent (15%) requirement. The Program did not present a complete distribution between administrative and programmatic costs of the total expense reported at the closing period.

Criteria

45 CFR, Subpart C, Section 92.20 (a) (2) states that the sub grantees must maintain fiscal controls and accounting procedures sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes.

Cause of Condition

The Program used multiple sources of accounting information that is not reconciled. As results, the Program Management not assures to prepare a complete distribution of the final expense, reported in the Federal Financial Report SF-425, between administrative and programmatic costs to show the compliance with the limitations.

Effect of Condition

The program is not in-compliance with 45 CFR, Subpart C.

Recommendation

We recommend Management maintains only one source of information using the accounting record system that the pass-through entity establishes to reconcile all the internal and external reports prepared. It is important to establish a single source of information because facilitate the motoring process and eliminates the duplicated efforts.

Costs

None

Management Response and Corrective Action

The Program's accountant will only use the MIP system to record each transaction of funds and ensure to make the appropriate use and distribution of funds. The Director of the agency will conduct a quarterly monitoring report of 15% each by administrative review accounting records in the MIP system.

Implementation Date: September, 2015

Responsible Person: Mrs. Idenisse Diaz, Head Start Director
Mrs. Janise A. Colón, Head Start Accountant

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
14-02	14.871	We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2013-2014. Also, one participant admitted to the program was not included in the Waiting List. No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 2015-003.
14-03	14.871	The PHA did not maintain an up-to-date utility allowance schedule for the audit period ending June 30, 2014. The PHA did not perform a review of the utility rates during the fiscal year to ascertain if there has been a change of ten (10) percent or more in the utility rate. No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 2015-004.
14-04	84.287	The equipment were relocated to the schools served, but the Equipment Report was not updated to present the new location. Also, we found no evidence of the Commonwealth of Puerto Rico Department of Education (DE) authorizing the relocation of the equipment as established by the contract agreement and Fiscal Procedures Guide. Corrective action was taken.
14-05	97.036	During our examination of the fiscal year Quarterly Reports – Percentage of Completion Reports, we noted the reports did not agree with the accounting and projects records. Corrective action was taken.
13-02	14.218	During our Davis-Bacon Act test, we verified (5) construction project files. The following will summarize the exceptions noted: (a) In four (4), we noted that during the fiscal year 2012-2013, the Municipality did not apply adequate monitoring procedures to required on-site visits to monitor the classifications of workers and wage rates paid; (b) In one (1) construction project, the contractor did not submit the entire documents required for the weekly payroll. A similar situation was not identified during fiscal year ended June 30, 2015.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
13-03	14.871	We performed a Waiting List – Compliance Test and after our procedures, we could not validate the process performed by the program staff for the selection of the new participants from the waiting list during the program year 2012-2013. No corrective action was taken. The auditors reissued the finding in the current year. See Finding Reference 2015-003.
13-04	14.871	During our audit, we noted that the Voucher for Payment of Annual Contributions and Operating Statement submitted electronically to HUD via the VMS monthly does not agree with its annual financial submission to HUD through the FASS-PH system. Corrective action was taken.
13-05	97.036	During our examination of the fiscal year Quarterly Reports – Percentage of Completion Reports we noted the reports did not agree with the accounting records. Corrective action was taken.
12-02	14.218	During our earmarking test over the funds used over the three year period, we found that the Municipality has not complied with the seventy percent (70%) of the funds that must be used over a period of up to three years for activities that benefit low – and moderate – income persons. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.
12-04	14.871	We performed a Cash Management Test and after our procedures, we found that during the current fiscal year, the Program maintained a monthly average cash balance in books of approximately $392,793. In addition, the PHA maintained an average leasing rate of 83% instead a 95%, as required. This means that the Program did not use all vouchers approved to the Municipality. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.

Original Finding Number	CFDA No.	Current Status of Prior Year Audit Federal Award Findings - Part III Findings (As required by OMB Circular A-133)
12-05	14.871	We performed a Waiting List – Internal Control and Compliance Test and after our procedures, we found that the current Waiting List does not contain the following information: (a) Family unit size; (b) Racial or ethnic designation; (c) Qualification for any local preference. Also, the admission of new participants to the program does not follow Regulation as established by the Administrative Plan. The audit finding does not warrant further action because two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse.