

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

**MUNICIPIO DE CIALES
AUDITORÍA 2014-2015
30 DE JUNIO DE 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SINGLE AUDIT REPORT
JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SINGLE AUDIT REPORT
JUNE 30, 2015**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	1-4
Management’s Discussion and Analysis	5-13
Basic Financial Statements:	
Government – Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Government funds financial statements:	
Balance sheet - Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances Of Governmental Funds to the Statement of Activities	18
Statement of revenues, expenditures and changes in fund balance Budget and actual (budget basis) general fund and debt service fund	19
Notes to financial statements	20-82
Schedule of Federal Financial Awards	83
Notes to Schedule of Expenditures of Federal Financial Awards	84
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance	85-86
Report On Compliance for Each Major Federal Program On Internal Control over Financial Reporting on Compliance OMB A-133.....	87-89
Schedule of findings and Questioned Costs	90-95
Corrective Action Plan	96-98

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Ciales
Ciales, Puerto Rico

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Ciales of the Commonwealth of Puerto Rico (“the Municipality”) as of end 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 the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and my opinion, insofar as it relates to the amounts included for discretely presented component unit is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Adverse Opinion on the Government-Wide Financial Statements – Statement of Net Position and Statement of Activities

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter of the Capital Assets reported value in the accompanying statement of net position of the governmental activities and, accordingly the amount that would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In my opinion, because of the significance matters discussed in the above section of Basis for Adverse Opinion, the Government-Wide Financial Statements previously referred to do not present fairly, in all material respects, the financial position of the governmental activities of the Municipality of Ciales, Puerto Rico, as of June 30, 2015, and the changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United State of America.

Basis for Qualified Opinion on the Governmental Funds Statements

The Municipality does not maintain adequate accounting records of the interfund cash transactions and the corresponding due from and due to account balances. I were unable to obtain sufficient evidence to support and satisfy ourselves about the amounts recorded as interfund balances in the amount of \$5.9 millions in each major fund and the aggregate remaining fun in the Balance Sheet of the governmental funds at June 30, 2015.

Qualified Opinion

In my opinion, except for the effects of such adjustments, if any as might have been determined to be necessary regarding the interfund transaction of each major fund and the aggregate remaining fund information, as described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respective changes in financial position thereof for the fiscal year ended in conformity 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 and budgetary comparison information on pages 4-11 and 47-48 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipality of Ciales basic financial statements. The accompanying supplementary information – Schedule of Expenditures of Federal Awards shown in pages 57 and 58 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 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 my opinion, the Schedule of Expenditures of Federal Awards is 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*, I have also issued my report dated September 29, 2016 on my consideration of the Municipality's internal control over financial reporting and on my 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 my 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.

Arecibo, Puerto Rico
September 29, 2016

The stamp number E 248004
was affixed to the record
original report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Puerto Rico, Municipality of Ciales (the Municipality) financial performance provides an overview of the Municipality's financial activities for the fiscal year ended June 30, 2015. The MD & A should be read in conjunction with the transmittal letter on page 12 and the Municipality's financial statements, which begin on page 14. The discussion and analysis includes comparative data for prior year as this information is available for the fiscal year ended June 30, 2015. This MD & A is prepared in order to comply with such pronouncement and, to provide the financial statements users with major information.

This Management's Discussion and Analysis (MD&A) is prepared as a result of the requirements of GASB 34, and it has been designed accordingly with the following goals:

- a. Assist the reader in focusing on significant financial issues,
- b. Provide an overview of the Municipality's financial activity,
- c. Identify changes in the Municipality's financial position (its ability to address the next and subsequent year challenges),
- d. Identify any material deviations from the financial plan (the approved budget), and
- e. Identify individual fund issues or concerns.

Fundamentals of Financial Statements Presentation

The new approach on the preparation of the Municipality's financial information consists of a series of new financial statements with a change in the focus from previous financial statements. Both perspectives (government-wide and major funds) allow the user address relevant questions about the municipality's performance broaden a basis for comparison (year to year or government to government) and enhance their municipality's accountability.

Because of the implementation of these new reporting standards, much of the information will not be easily comparable with prior year. However in future years, comparisons will be more meaningful and will provide a better understanding of the municipality's financial position and results of its operations.

General Fund

In spite of the difficult economic situation during fiscal year 2014-2015 and the budgetary deficit that the island of Puerto Rico has run through, our administration has worked very responsibly by paying attention to most urgent requests but without overlooking what is important and necessary. To that effect we have promoted and completed several projects related to permanent improvements in various areas that will provide quality facilities to the citizens of the Municipality.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS

The property tax revenue represents 10% of total revenues of the municipality during the last five years. The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible for the assessment of all real and personal property located within the Municipality of Ciales and for the levy, administration and collection of the corresponding taxes.

However, we deal with a deficit situation in the general fund of approximately \$6.3 million at June 30, 2015. The decrease in the deficit during fiscal year 2014-2015 is due mainly to the Government Redemption fund of sales and use taxes that was not realized as needed. Therefore, we expect that during fiscal year 2015-2016 the construction projects receive final endorsement from the appropriate authorities and, accordingly, our Municipality's Management will correct the deficit in the general fund with 2015-2016 revenue sources.

FINANCIAL HIGHLIGHTS

- The Net position of the Municipality its liabilities exceeded assets at the close of the current fiscal year by \$9.4 million decreased by \$1.8 when compared with prior year.
- Revenues were \$6 million less than last year; expenses were \$2.7 million more than last year as reported in the Statement of Activities.
- The Municipality had reported in the General Fund a deficiency of revenues over expenditures amounting to \$6.3 million in the accompanying statement of revenues, expenditures and changes in fund balances.
- Loans principal payments were \$452,000 during fiscal year 2014-15.
- The actual revenues were \$2.9 million less and the expenditures were \$2.3 million less creating a deficiency of \$608,180 over the revenues in the Budgetary Schedule mainly due to unfavorable variances in revenues, (Volume of Business Tax, Municipal tax and other revenues).
- The Municipality government funds reported combined ending fund balances of \$171,680 in the accompanying statement of revenues, expenditures and changes in fund balances.
- The Municipality has reported a net unassigned fund balance deficit for the general fund amounting to \$6.3 million.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Statements Components

The basic financial statements consist of government wide financial statements, the major individual funds financial statements and notes to the financial statements that provide more details.

Governmental-Wide Financial Statements - The government-wide financial statements which begin on page 13 of this report are designed to provide users with a broad overview of the Municipality's finances, in a manner similar to a private-sector business. The government wide statements provide short and long term information about the municipality's status as a whole.

The Statement of Net position reflects information of the Municipality as whole. Overtime increases or decreases of net assets may serve as a useful indicator of whether the municipality's financial position is improving or deteriorating. Those statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. Accrual of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Activities is focused on both gross and net cost of the various activities, which are supported by the Municipality's property tax, municipal licenses tax and other revenues. It is intended to summarize and simplify the user's analysis of the costs of governmental services.

The Statement of Net position and the Statement of Activities, on page 14 report the Municipality net position and changes in them. One can analyze of the Municipality's net position, as the difference between assets, liabilities and deferred inflows or resources, as one way to measure the Municipality's financial position. The increases or decreases in the Municipality's net assets are one of the indicators of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered, such as changes in the Municipality's property tax base, and the condition of roads, to assess the overall health of the Municipality's of Ciales.

Fund Financial Statements – The Fund Financial Statements provide detailed information about the Municipality's most significant funds, not the Municipality as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. The Municipality's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND**

The Governmental Funds provides a detail short-term view of the Municipality general governmental operations and the basic services it provides. Governmental funds information help you determine whether there are more or fewer financial resources that can be spent in the near future to finance Municipality programs. Both of the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

We describe the relationship between governmental activities and governmental funds in reconciliation besides the fund financial statements.

Analysis

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

Infrastructure Assets

The Municipality implemented the major model portions of GASB statement 34 during the prior years. Historically, the governmental larger group of assets have not been reported nor depreciated in governmental financial statements. The new statement required that this asset be valued and reported within the Governmental column of the Governmental Wide Statement.

Additionally, the government must elect to either depreciate these assets over their estimated useful life or develop a system of assets management designated to maintain the service delivered potentially to near perpetuity. If the government develops the assets management system, which periodically, by category, measures and demonstrate its maintenance of locally established level of services standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statements users in evaluating a local government and its performance over time.

Government-Wide Financial Analysis

Statement of Net Position

The Statement of Net Position reports information of the municipality as a whole. Increase or decrease of net assets may serve as an indicator of whether municipality's financial position is improving or deteriorating. In the case of the Municipality primary government liabilities exceeded assets by \$9.4 million at the close of the recent fiscal year compared to \$7.6 million at the end of previous year, as restated and showed in the following condensed Statement of Net Position of the Primary Government.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statements of Net Position
As of June 30, 2014 and 2015**

	2015	2014	Changes	%
Current assets	\$ 3,069,995	\$ 3,249,139	\$ (179,144)	-6%
Capital assets net	25,635,275	26,568,795	(933,520)	-4%
Total assets	28,705,270	29,817,934	(1,112,664)	-4%
Current and other liabilities	2,508,487	3,856,235	(1,347,748)	-35%
Non-current Liabilities	35,212,433	8,874,938	26,337,495	297%
	25,141,152	25,141,152		
Total liabilities	62,862,072	37,872,325	24,989,747	66%
Deferred inflows of resources	658,000	313,641	409,097	130%
Net Position:				
Invested in capital assets	25,550,034	24,305,247	1,244,787	5%
Debt service	1,282,594	917,894	364,700	40%
Committed	5,235,240	5,060,194	175,046	3%
Unrestricted (deficit)	(41,533,346)	(37,889,853)	(3,643,493)	10%
Total net assets	\$ (9,465,478)	\$ (7,606,518)	\$ (1,858,960)	24%

The decrease of \$1.8 million in the current net position was mainly due to decrease in accounts Cash with fiscal agent; Non-current liabilities were reduce by \$1.3 million principally is reflected in the account due to government entities. The capital assets net decrease by \$933,520 same time created a decreased in the net invested in capital asset by \$792,787 reflected principally in the Building and improvements, net.

Increase – (Decrease) net in Capital Assets was as follows:

	6/30/2015	%	6/30/2014	%	Change
Land	\$ 1,706,856	7%	\$ 1,706,856	6%	\$ -
Construction in progress	5,431,755	21%	4,877,173	18%	554,582
Building and improvements, net	8,216,973	32%	9,080,210	34%	(863,237)
Infrastructure	10,113,138	39%	10,590,968	40%	(477,830)
Furniture and equipment	-	0%	126,351	0%	(126,351)
Works of art	-	1%	15,210	1%	(15,210)
Motor vehicles	166,553	1%	172,027	1%	(5,474)
Total Net Capital Asset	\$ 25,635,275		\$ 26,568,795		\$ (933,520)

The net building improvements net represent 32 percent and 34 percent of total asset and net capital assets respectively. Construction in progress represents 21 percent of total asset and 18 percent and net capital asset.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a condensed Statement of Activities of the Primary Government:

**Statements of Activities
For the year ended June 30, 2015 and 2014
Net Position**

	2015	2014	Changes	%
General Revenues				
Property tax	\$ 1,523,110	\$ 1,091,582	\$ 431,528	40%
Volume of Business Tax	376,909	373,183	3,726	1%
Intergovernmental revenue	8,543,163	8,389,282	153,881	2%
Rent	42,440	77,015	(34,575)	-45%
Interest	68,285	39,907	28,378	71%
Other revenue	59,400	694,841	(635,441)	-91%
Municipal sales tax	1,015,171	930,213	84,958	9%
Program revenues:				
Capital grants	1,026,923	741,360	285,563	39%
Operating grant	791,444	529,616	261,828	49%
Charges for Services	64,820	10,830	53,990	499%
Total Revenues	13,511,665	12,877,829	633,836	
			-	
Expenditures			-	
General government	7,425,053	6,623,490	801,563	12%
Public safety	819,876	846,709	(26,833)	-3%
Public wok	3,050,631	3,080,133	(29,502)	-1%
Culture and recreation	994,578	997,723	(3,145)	0%
Interest and fiscal charges	513,742	440,511	73,231	17%
Other	1,905,002	1,891,808	13,194	1%
Total Expenditures	14,708,882	13,880,374	828,508	
Net Position	\$ (1,197,217)	\$ (1,002,545)	\$ (194,672)	

The Statement of Activities reflects for fiscal year 2015, the net effect of revenues derived from several programs plus current operating revenues. Total revenues compared to the total expenses, amounted to decrease by \$2 million in the Municipality's net position. Approximately 19 percent of the Municipality's total revenue came from taxes, while 9 percent resulted from Federal grants and 63 percent resulted from Intergovernmental Revenues. The Municipality's expenses cover a range of services like health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and improvements. The largest expenses were for general government, public works, education and training and culture and recreation. With this analysis, the readers have comparative information with the percentage of change in revenues and expenses from prior year to current year.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

A brief review of the Statements of Activities of the Municipality at June 30, 2015, shows that total expenses incurred to afford the cost of all functions and programs amounted to \$1.8 million. Upon examining the sources of revenues for the financing of the programs, the Statement reflects the following; \$64,820 for charges for service. General revenues for the year amounted to \$13.5 million. Expenses increased by \$2 million or 14% when compared to prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The following is a condensed Balance Sheet of the Governmental Funds:

**Governmental Funds
Balance Sheets
June 30, 2015 and 2014**

	2015	2014	Changes	%
Assets:				
Cash	\$ 1,029,799	\$ 1,507,219	\$ (477,420)	-32%
Restricted Cash	2,005,656	1,715,299	290,357	17%
Accounts Receivable	5,988,342	4,975,901	1,012,441	20%
Total Assets	\$ 9,023,797	\$ 8,198,419	\$ 825,378	10%
Liabilities and Fund Balance				
Liabilities:				
Accounts payable and due to other funds	\$ 8,402,289	\$ 7,803,656	\$ 598,633	8%
General Obligations	527,000	552,000	-	
Deferred inflows of resources	449,828	313,641	136,187	43%
Total Liabilities	9,379,117	8,669,297	\$ 734,820	
Funds Balances	(355,320)	(470,878)	115,558	-25%
Total liabilities and Fund Balances	\$ 9,023,797	\$ 8,198,419	\$ 850,378	

The Governmental Fund Financial Statement is another important component of the Municipality's financial statements. A fund is a grouping of related accounts 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 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.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

During 2015 the municipality had \$2 million of cash restricted, in the other funds \$555,998 and in the debt service was obligated by \$.7 million. The accounts payable decreased by \$5 millions. Deferred revenues increased by approximately \$136,187.

The most significant changes of this statement were as follows:

- Revenues from property tax increased by \$431,528 due to an increase in property tax collection. The increase in Intergovernmental revenues of \$153,881 was the result of increase in funds received from central government. Revenue from volume business tax declaration was increase by \$3,726 when compared with prior year, reflected in sales reported in the municipal tax declaration. Other revenues decrease by \$321,809, principally for eventual income.
- Expenditures were increased by approximately \$1.9 million reflected by an increase in Capital outlays expense when compared the prior year. The expenditures increase \$.8 million in the mentioned account and Public works \$1.1 million.

	2015	2014	Changes	%
Revenues:				
Property taxes	\$ 1,523,110	\$ 1,091,582	\$ 431,528	40%
Volume of business tax	376,909	373,183	3,726	1%
Licenses, permits and local tax	88,070	281,427	(193,357)	-69%
Intergovernmental revenue	8,543,163	8,389,282	153,881	2%
Federal grants	1,818,367	1,270,976	547,391	43%
Sales Tax	1,015,171	930,213	84,958	9%
Interest, fines and penalties	68,285	39,907	28,378	71%
Other	179,450	501,259	(321,809)	-64%
Total Revenues	\$ 13,612,525	\$ 12,877,829	\$ 734,696	6%
Expenditures and Fund Balance				
Expenditures:				
General Government	\$ 6,758,802	\$ 5,958,021	\$ 800,781	13%
Public works	2,922,624	1,729,208	1,193,416	69%
Public safety	726,407	759,700	(33,293)	-4%
Public housing and welfare	816,449	1,593,753	(777,304)	-49%
Capital outlays	792,787	274,079	518,708	189%
Culture and recreation	724,391	402,822	321,569	80%
Bonds (principal and interest)	965,742	1,048,511	(82,769)	-8%
Total Expenditures	\$ 13,707,202	\$ 11,766,094	\$ 1,941,108	16%
Excess of revenues (expenditures)				
under expenditures (revenues)	(94,676)	1,111,735	(1,206,412)	-109%
Fund Balance, ending	\$ 171,680	\$ (470,878)	\$ 642,558	-136%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year Budget

The Municipality is a political legal entity with full legislative and administrative powers in every area of the municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The Mayor exercises the executive power and the Municipal Legislature, which has eleven (11) members, exercises the legislative power.

The Municipality relies primarily on property and intergovernmental revenues as well as federal and state grants to carry out the governmental activities. Federal and State grant revenues may vary if new grants are available. Those factors were considered when preparing the Municipality's budget for the fiscal year 2014-2015.

The Budget for Revenues and expenditures were \$.6 million for the general fund, total revenues decreased \$2.9 million when comparing the budgeted revenues with the actual revenue. The other revenue decreased by \$1.2 million. The actual expenditures were \$2.3 less than budgeted expenditures. Excess of revenues under expenditures reflect a deficiency of \$608,180.

The Municipality provides a full range of services including public works, education Public safety, public housing, health, community development, culture, recreation and other administrative services. The Municipality's principal sources of revenues are property taxes, municipal license taxes, contributions by the state government and federal grants.

The Municipality's management is committed to a continued improvement in the confection of a budget that wills response to the need of the public and private sectors in accordance with its permissible revenues levels. Such has been the case of the financial operation corresponding to fiscal year 2014. It further contemplates to improve its current figure of net position, which has been identified as one of the main short and long-term objectives of the Municipality.

Contacting the Municipality's Financial Management

The Municipality's financial statements are designed to present users with general overview of the Municipality's finances. If you have questions about the report or need additional financial information, contact the Municipality's Director of Finance.

Finance Director, PO Box 1408, Ciales Puerto Rico, 00638. Telephone (787) 871-3500, Fax (787) 871-3743.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF NET POSITION
JUNE 30, 2015**

<u>ASSETS</u>	Governmental Activities	Component Unit Colinas de Jaguas I
Cash and investments	\$ 1,029,799	\$ 9,528
Cash with fiscal agent	2,005,656	-
Accounts receivable (Municipal Sales Tax)	18,703	-
Accounts receivable (Rent)	-	27,151
Accounts receivable from government	15,836	-
Other Assets	-	1,487
Restricted deposited	-	122,416
Capital assets, net of accumulated depreciation	25,635,275	168,361
DEFERRED OUTFLOWS OF RESOURCES		
Contributions made at the measurement date	887,196	-
Total assets	\$ 29,592,465	\$ 328,943
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 832,692	\$ 17,960
Accrued interest	202,003	11,648
Due to government entity	886,793	-
Non-current liabilities:	-	-
Due within one year	587,000	37,935
Due in more than one year	10,750,303	1,376,592
Net pension liability	25,141,152	-
Total liabilities	38,399,943	1,444,135
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenues - Volume of Business Tax	313,641	-
Unavailable Revenues - Federal Funds	136,187	-
Additional liability as of measurement date	208,172	-
	658,000	-
<u>Net Position</u>		
Invested in capital assets	25,550,034	-
Restricted for:		
Debt service	1,282,594	-
Capital project activity	5,235,240	-
Unrestricted (deficit)	(41,533,346)	(1,115,192)
Total Net Position	(9,465,478)	(1,115,192)
Total Liabilities and Net Position	\$ 29,592,465	\$ 328,943

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Primary	Component
					Governmental Activities	Unit Colinas de Jaguas I Project
<u>EXPENDITURES:</u>						
General government	\$ 7,425,053	\$ -	\$ (1,026,923)	\$ (791,444)	\$ 5,606,686	\$ -
Public works	3,050,631	(64,820)	-	-	2,985,811	-
Public safety	819,876	-	-	-	819,876	-
Health	762,603	-	-	-	762,603	-
Culture and recreation	994,578	-	-	-	994,578	-
Other	1,905,002	-	-	-	1,905,002	-
Interest on long-term debt	513,742	-	-	-	513,742	-
Total governmental activities	<u>\$ 15,471,485</u>	<u>\$ (64,820)</u>	<u>\$ (1,026,923)</u>	<u>\$ (791,444)</u>	<u>\$ 13,588,298</u>	<u>\$ -</u>
Component Units:						
Colinas de Jaguas I	\$ 360,253	\$ (350,249)	\$ -	\$ -	\$ -	(10,004)
Total Component Activities	<u>\$ 360,253</u>	<u>\$ (350,249)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,004)</u>
<u>GENERAL REVENUES:</u>						
Property taxes					\$ 1,523,110	\$ -
Volume of Business Taxes					376,909	-
Intergovernmental revenues					8,543,163	-
Rent of properties					42,440	-
Interests income					68,285	-
Transportation services					59,400	-
Other Revenues					100,860	-
Municipal sales tax					1,015,171	-
Total general revenues					<u>11,729,338</u>	<u>-</u>
Change in net position					(1,858,960)	10,004
Net position at beginning of year					16,773,120	1,105,188
Prior period adjustments (note 19)					(24,379,638)	-
Beginning balance restated					(7,606,518)	1,105,188
Net position at ending of year					<u>\$ (9,465,478)</u>	<u>\$ 1,115,192</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

<u>ASSETS</u>	General Fund	Canalización Dos Rios	Joint Resolution	HUD Programs	Debt Service Fund	Other Funds	Total Governmental Funds
Cash and investments	\$ 21,280	\$ 234	\$ 381,290	\$ 70,997	\$ -	\$ 555,998	\$ 1,029,799
Cash with fiscal agent and other	-	-	-	-	2,005,656	-	2,005,656
Accounts receivable (municipal sales tax)	18,703	-	-	-	-	-	18,703
Accounts receivable from government	-	-	-	9,896	5,940	-	15,836
Accounts receivable from other funds	560,180	2,711,000	1,222,183	-	-	1,460,439	5,953,802
Total assets and other debits	\$ 600,163	\$ 2,711,234	\$ 1,603,473	\$ 80,893	\$ 2,011,596	\$ 2,016,437	\$ 9,023,797
<u>LIABILITIES DEFERRED INFLOWS AND FUND BALANCES</u>							
Liabilities:							
Accounts payable and accrued liabilities	\$ 255,870	\$ -	\$ 249,704	\$ 15,667	\$ -	\$ 311,451	\$ 832,692
Bond payable	-	-	-	-	527,000	-	527,000
Accrued interest payable	-	-	-	-	202,003	-	202,003
Due to governmental entities	886,793	-	-	-	-	-	886,793
Accounts payable to other funds	5,490,014	-	463,788	-	-	-	5,953,802
Total liabilities	6,632,676	-	713,492	15,667	729,003	311,451	8,402,289
Deferred inflows or Resources							
Unavailable Revenue - Volume of Business Tax	313,641	-	-	-	-	-	313,641
Unavailable Revenue - Federal Funds	-	-	-	65,226	-	70,961	136,187
Total deferred Inflows of Resources	313,641	-	-	65,226	-	70,961	449,828
Fund balances:							
Restricted for:							
Debt service	-	-	-	-	1,282,594	-	1,282,594
Capital Projects	-	2,711,234	889,981	-	-	1,634,025	5,235,240
Unassigned	(6,346,154)	-	-	-	-	-	(6,346,154)
Total fund balances	(6,346,154)	2,711,234	889,981	-	1,282,594	1,634,025	171,680
Total liabilities and fund balance	\$ 600,163	\$ 2,711,234	\$ 1,603,473	\$ 80,893	\$ 2,011,596	\$ 2,016,437	\$ 9,023,797

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS:

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS

Net pension liability

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

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued compensated absences

Legal claims

Bonds payable and Others debts

Total long-term liabilities

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 25,349,324	\$ 171,680
692,944	25,635,275
1,642,165	
7,588,000	
\$ 35,272,433	(35,272,433)
	\$ (9,465,478)

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	Canalización Dos Ríos	Joint Resolution	HUD Programs	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:							
Property taxes	\$ 1,081,954	\$ -	\$ -	\$ -	\$ 441,156	\$ -	\$ 1,523,110
Volume of Business Taxes	376,909	-	-	-	-	-	376,909
Licenses, permits, fines and sales tax	88,070	-	-	-	-	-	88,070
Intergovernmental revenues	5,704,872	-	1,358,623	-	-	1,479,668	8,543,163
Rent of properties	42,440	-	-	-	-	-	42,440
Interest income	66,602	-	-	-	1,683	-	68,285
Transportation services	59,400	-	-	-	-	-	59,400
Other revenues	77,611	-	-	-	-	-	77,611
Municipal sales tax	217,869	-	-	-	797,302	-	1,015,171
Federal financial award	-	-	-	1,026,923	-	791,444	1,818,367
Total revenues	<u>7,715,727</u>	<u>-</u>	<u>1,358,623</u>	<u>1,026,923</u>	<u>1,240,141</u>	<u>2,271,112</u>	<u>\$ 13,612,526</u>
EXPENDITURES:							
Current:							
General government	2,892,978	-	843,837	472,370	-	2,549,618	6,758,803
Public woks	2,922,624	-	-	-	-	-	2,922,624
Public safety	726,407	-	-	-	-	-	726,407
Health	724,391	-	-	-	-	-	724,391
Capital outlays	-	-	-	554,553	-	238,234	792,787
Culture and recreation	353,254	-	-	-	-	-	353,254
Other	463,194	-	-	-	-	-	463,194
Debt service:							
Principal retirement	-	-	-	-	452,000	-	452,000
Interest and fiscal charges	-	-	-	-	513,742	-	513,742
Total expenditures	<u>8,082,848</u>	<u>-</u>	<u>843,837</u>	<u>1,026,923</u>	<u>965,742</u>	<u>2,787,852</u>	<u>13,707,202</u>
Excess of revenues over (under) expenditures	(367,121)	-	514,786	-	274,399	(516,740)	(94,676)
Other financing sources (uses):							
Transfer to debt service fund	(32,515)	-	-	-	32,515	-	-
Transfer from debt service general fund	450,000	-	(450,000)	-	-	-	-
Total other financing sources (uses)	<u>417,485</u>	<u>-</u>	<u>(450,000)</u>	<u>-</u>	<u>32,515</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	50,364	-	64,786	-	306,915	(516,740)	(94,676)
Net change in fund balances	50,364	-	64,786	-	306,915	(516,740)	(94,676)
Fund balance June 30, 2013 (deficit) reported	(6,650,600)	2,711,234	1,077,619	-	1,075,483	259,733	(1,526,531)
Prior period adjustments June 30, 2012 (Note 19)	(105,107)	(42,000)	(113,269)	-	-	(1,697,717)	(1,958,093)
Fund balance June 30, 2012 (deficit) corrected	(6,755,707)	2,669,234	964,350	-	1,075,483	(1,437,984)	(3,484,624)
Prior period adjustments June 30, 2013 (Note 19)	266,741	42,000	(128,982)	-	(157,589)	2,931,983	2,954,153
Fund balance June 30, 2013 (deficit) corrected	(6,488,966)	2,711,234	835,368	-	917,894	1,493,999	(530,471)
Beginning Balance Restated	(6,488,966)	2,711,234	835,368	-	917,894	1,493,999	(530,471)
Prior period adjustment (Note 19)	92,449	-	(10,173)	-	57,785	656,766	796,827
Fund balance June 30, 2014 (deficit) corrected	(6,396,517)	2,711,234	825,195	-	975,679	2,150,765	266,356
Fund balance June 30, 2015 (deficit)	<u>\$ (6,346,154)</u>	<u>\$ 2,711,234</u>	<u>\$ 889,981</u>	<u>\$ -</u>	<u>\$ 1,282,594</u>	<u>\$ 1,634,025</u>	<u>\$ 171,680</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net change in fund balance - total governmental funds \$ (94,676)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	792,787	
	(1,441,808)	
Less: current year depreciation	<u>(1,567,263)</u>	(2,216,284)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments	452,000	
Other sources	<u>452,000</u>	<u>452,000</u>
Change in net position of governmental activities		<u>\$ (1,858,960)</u>

See accompanying notes to basic financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Budget Amount		Adjusted Actual Note 1	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Property taxes	\$ 218,740	\$ 218,740	\$ 218,740	\$ -
Volume of Business Taxes	571,333	571,333	376,909	(194,424)
Intergovernmental revenues	5,721,594	5,721,594	5,704,872	(16,722)
Licenses, permits and fines	1,006,921	1,006,921	88,070	(918,851)
Rent of properties	150,000	150,000	42,440	(107,560)
Interest income	26,585	26,585	66,602	40,017
Other revenues	1,321,400	1,321,400	108,611	(1,212,789)
Transportation services	482,750	482,750	59,400	(423,350)
Municipal Sales Tax	325,382	325,382	217,875	(107,507)
Other financial sources	790,041	790,041	790,041	-
Total revenues	\$ 10,614,746	\$ 10,614,746	\$ 7,673,560	\$ (2,941,186)
EXPENDITURES:				
Current:				
General Government	4,303,854	4,453,439	3,319,581	1,133,858
Public safety	900,454	860,112	3,117,204	(2,257,092)
Public Works	3,894,093	3,780,348	729,230	3,051,118
Health	1,045,524	1,045,524	724,391	321,133
Culture and Recreation	409,902	413,052	357,467	55,585
Other	-	-	-	-
Transfer out to debt service	60,920	60,920	32,515	28,405
Total expenditures	\$ 10,614,747	\$ 10,613,395	\$ 8,280,388	\$ 2,333,007
Excess of revenues over (under) expenditures			\$ (606,828)	\$ (608,179)
Explanation of differences:				
Sources/inflows of resources:				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule				\$ 7,673,560
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				73,173
Total revenues as reported on the statement of revenue, expenditure, and changes in fund balances				(31,006)
				\$ 7,715,727
Uses/outflow of resources				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule				\$ 8,280,388
Differences - budget to GAAP:				
Non budgeted expenditures				(587,141)
Other expenditures non for financial reporting				422,116
Transfer from general fund for budgetary purpose only				(32,515)
Total expenditures as reported on the statement of revenue, expenditures and change in fund balances				\$ 8,082,848

See notes to budgetary comparison schedule.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

GENERAL ORGANIZATION

The **Municipality of Ciales (The Municipality)** was founded in 1815. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of eleven (11) assemblymen also elected in the general elections of Puerto Rico for a four-year period.

The **Municipality** provides services such as: health, public safety, sanitation, recreation and sports, education, housing, transportation, welfare, construction and/or improvements of highways and streets, and other general and administrative services.

The financial statements of **the Municipality** have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations,) constitute GAAP for governmental units. A summary of **the Municipality's** significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Municipality's financial statements include the operations of all departments and separate legal entities for which **the Municipality** is financially accountable or for which exclusion would leave the financial statements misleading or incomplete.

In June 1999, the GASB issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments. It requires new information and restructures much of the information that governments have reported in the past. Comparability with reports issued in prior years is affected. In June 2001, the GASB issued Statement No. 37 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments Omnibus*, which in part addressed the Management Discussion and Analysis (MD&A) requirements, Program Revenue Classifications and Major Fund criteria requirements in the reporting model in Statement No. 34.

The Municipality implemented this Standard for the fiscal year ended June 30, 2003.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

b. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor, and (2) whose funds are under the legal custody and control of the **Municipality's** Director of Finance, as prescribed by Law No. 81 of August 30, 1991, as amended, known as the *Autonomous Municipalities Act of the Commonwealth of Puerto Rico*. **The Municipality's** management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with **the Municipality's** may be such that exclusion of their financial statements from those of the Municipality would cause **the Municipality's** basic financial statements to be misleading or incomplete according to GASB Statement No. 14, - *The Financial Reporting Entity (GASB No. 14) and GASB Statement No. 39, Determining Whether Certain Organizations are Component Unites – Amendment of GASB Statement No. 14 (GASB No. 39)* to determine its financial reporting entity.

The Municipality's management has considered all potential component units (whether governmental, not-for-profit, or profit-oriented) for which in may be financially accountable, and other legally separate organizations for which the Municipality is not financially accountable but the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the accompanying basic financial statements to be misleading or incomplete. Accordingly, a legally separate organization would be reported as a component unity of the Municipality if all of the following criteria are met:

1. The Mayor appoints a voting majority of an organization's governing body and, either (1) the Municipality has the ability to impose its will on that organization or (2) the organization has the potential to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.
2. The economic resources, for which the Municipality is entitled, either received or held by the separate organization, are entirely or almost entirely for the direct benefit of the Municipality or its constituents.

GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions or discrete presentation of the component units' financial data in columns separate from the Municipality's balances and transactions.

The Municipality's management has concluded that, based on the aforementioned criteria, the Colinas de Jaguas Project is a legally separate entity that should be reported as component unit of the Municipality for the fiscal year ended June 30, 2015.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Colinas de Jaguas Project is included in the basic financial statements as a discretely component unit because of the nature of the services they provide and the Municipality's ability to impose its will.

Colinas de Jaguas Project is a 54-unit multi-family housing project owned by the Municipality as authorized transfer from the Special Trustee for the Liquidation of the Accounts of the Puerto Rico Urban Renewal and Housing and Corporation. The project is operated under Section 515 of USDA, Rural Development (USDA-RD) and regulated by the U.S Department of Housing and Urban Development (HUD) with respect to rental charges and operating methods. The project is also subject to Section * Housing Assistance Payments agreements with HUD and a significant portion of the project's rental income are received from HUD. Also, the Project is financed by a Mortgage of Section 515 Direct Loan.

c. Basic Financial Statements-GASB Statement No. 34

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as governmental activities. In the government-wide Statement of Net Assets the governmental activities (a) are presented on a consolidated basis in one column, and (b) are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category. The Statement of Activities reduces gross expenses (including depreciation) by related operating grants and contributions. The operating grants include operating-specific grants.

This government-wide focus is more on the sustainability of **the Municipality's** as an entity and the change in aggregate economic position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the major funds in the governmental category. Non-major funds are aggregated into a single column.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The governmental funds financial statements are presented on a current financial resource measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how **the Municipality** actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statement, a reconciliation is presented on the fund statement, which briefly explains the adjustments necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

d. Basis of Presentation

The new model as defined in Statement No. 34 establishes criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Major and Non-major Funds

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

- a) Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b) Total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

In addition funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Municipality reports the following major funds on **Fund Financial Statements**:

Major Funds

General Fund – Always a major fund. The general fund is the main operating fund of **the Municipality**. It is used to account for all financial resources except those required to be accounted for in another fund.

“Canalización Dos Ríos” – This fund is used to account the resources for the transactions of the State Contribution for the project “Canalización Dos Ríos”. The primary objective of these funds is the development of the project on the community.

Join Resolution Fund – This fund is used to account the resources for the transactions of the State Contribution by Legislature Resolutions. The primary objective of these funds is the development of projects on communities, non-for-profit organizations, purchase of equipment and indirect assignment to persons of low and moderate income.

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

Debt Service Fund – Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

However, resources restricted to expenditure for purposes normally financed from the general fund are reported in **the Municipality’s** general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.

Other Funds (non major funds) – Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purposes. Capital projects fund is used to account for the financial resources for the acquisition of personal property and/or construction of major improvements, which are not financed by other funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

e. Basis of Accounting

The accounts of **the Municipality** are organized on the basis of funds, each of which is considered to be a separate accounting entity. **The Municipality** has created various types of funds. Each fund is accounted for by a separate set of self-balancing accounts, which include its assets, liabilities, fund balances, and revenues and expenditures/expenses, as applicable. The individual funds accounts for the governmental resources allocated to **the Municipality** for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

Measurement Focus, Basis of Accounting and Financial Statement presentation

Government-wide Financial Statements – The government wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which **the Municipality** gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Funds Financial Statement – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. “Available” means collectible within the current period or 90 days after the end of the period to use them to pay liabilities of the current period. Miscellaneous revenues are recorded when collected.

Revenues collected in advance of the fiscal year to which they apply are recorded as deferred Revenues and recognized as revenues in the year to which they apply. Expenditures are generally recognized when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds.

Governmental Fund Types/Governmental Activities – Governmental funds are those through which most governmental functions of **the Municipality** are financed. The acquisition, use, and balances of **the Municipality’s** expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

The principal revenues sources considered susceptible to accrual include property taxes, municipal license taxes, intergovernmental grants and contributions, interest on deposits, and certain charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying FFFS, except for amounts recorded as deferred revenues.

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

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

Future Adoption of Accounting Pronouncements – The Governmental Accounting Standards Board has issued the following statements that the Municipality has not yet adopted:

No. 73	Accounting and Financial Reporting for Pensions and related assets that are not within the scope of GASB Statement 68 and amendments to certain provisions of GASB statement 67 and 68	After June 15, 2015
No. 76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	After June 15, 2015
No. 79	Certain External Investment Pools and Pool Participant	After June 15, 2015

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

f. Budgetary Control

The Municipality follows the following procedures, which are in accordance with the municipal law; in establishing the annual budget as reflected in the basic financial statements.

- (1) On or prior to May 15, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and their financing sources.
- (2) The budget document is available for public inspection prior to its approval by the Municipal Assembly.
- (3) Prior to July 1st. the annual budget is legally enacted through passage of the annual appropriation ordinance.
- (4) Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget.

The budget is prepared following the modified accrual basis of accounting except for the encumbrances, as described below:

The actual results of operations, presented in the Statement of Revenues, Expenditures and changes in Fund Balances-Budget and Actual-General Fund, are reflected in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

Amendments to the budget, and budgetary transfers related to personal expenditures, require the approval of the Municipal Assembly. Non-capital encumbrances lapse at the end of the next fiscal year.

Since the budgetary basis differs from generally accepted accounting principles (GAAP), actual amounts for the general fund and debt service fund in the accompanying Statement of Revenues and Expenditures-Budget and Actual are presented on the budgetary basis to enhance comparability. The principal differences are as follows:

- (1) Encumbrances are recorded as expenditures under the budgetary basis and as reservations of fund balance under the GAAP basis.
- (2) The property tax advances are presented as revenue in the budgetary basis and as other financing sources in the GAAP basis.
- (3) The Municipality receives certain revenues as contributions from governmental entities, legislative and private parties, which are not included therein nor are the related expenditures.
- (4) Certain debt issuance to acquire personal property is reflected in the general fund and is restricted for that purpose.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

The Municipality has not legally adopted a budget for the Head Start special revenue and capital projects funds. Accordingly, it has not presented an annual comparison of budget and actual for these major funds.

Legal Compliance

Article 7.003, Law No. 81 of August 31, 1991, amended require that Mayor provide to Municipal Legislature an annual balanced budge indicating: 1) interest, amortization and retirement public debt, 2) statutory obligations, 3) judicial claims payments, 4) any amount to cover prior years deficit, 5) contract commitments and operational expenditures. For annual interest and principal debt amortization, CRIM provides annual estimated resources that will be obtained of additional special property tax (municipal) collections. **The Municipality's** management shows budgetary financial statements in general and debt service funds in compliance with state law and which are based in annual activity. The legal level of budgetary control is at the individual department level for general fund (Mayor and Legislature funds) expenditures, and annual principal and interest due for debt service fund.

g. Deposits

Substantially all cash balances are commingled in a general checking account and several special purpose bank accounts, except for cash and investments restricted by law. Each fund records its equity interest in the pooled cash balance. The available cash balance in the general checking account beyond immediate needs is invested in interest-bearing deposits. Generally, cash is deposited in interest-bearing bank accounts. Investment earnings are credited to the respective fund. Investments consist of short-term certificates and are stated at cost, which approximates fair value.

h. Inventories

The general funds purchase office and printing supplies, gasoline, oil, medicines and other items. The cost of purchases is recorded as expenditures and the inventory is not recorded in the basis financial statements since amount is insignificant.

i. Capital Assets

Fund Financial Statements

The capital assets acquired are recorded as expenditures at cost in the governmental funds.

Government Wide Financial Statements

Purchased capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair value as of the time they are received by **the Municipality** and are

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

capitalized in the Statement of net Assets. Major renewals and betterment are capitalized: replacement, maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to operations.

Depreciation is provided over the estimated useful life of the respective assets on straight-line basis.

j. Vacation and Sick Leave and Other Compensated Absences

Municipal employees are granted 30 days of vacation and 18 days of sick leave annually. Vacation leave may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay to the maximum allowed. The Municipality is required to pay excess sick leave over 90 days on or before March 31 of the accumulated excess at December 31, of prior year. Employees' maximum allowed accumulated vacation, with the employer's share of payroll taxes, is accounted for in the Statement of Net Assets.

k. Insurance

The Municipality has insurance coverage for its public facilities and equipment, primarily to provide protection in case of disaster and other losses. Also, principal officials of **the Municipality** are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance coverage for **the Municipality**.

l. Accounting for Pension Costs

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

In addition, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position

The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are not available. This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

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

Measurement Frequency and Valuation Requirements

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Impact on the Financial Statements – Change in Accounting Principles

Changes resulting from GASB 68 requirements apply only to the government-wide financial statements. GASB 68 does not apply to governmental funds; they will continue to report pension expenditures based on contributions made during the year.

There is no change in cash flow, contribution rates or General Fund budget expenditures associated with implementation of GASB 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the ARC concept for recognizing pension expense, resulting in the separation of accounting from funding.

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

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

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be \$54.5 million for governmental activities; business-type activities funds were not affected because employees do not participate in the retirement systems.

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

- contributions from employers and nonemployee contributing entities to the pension plan and earnings on those contributions are irrevocable;
- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;
- pension plan assets are legally protected from the creditors of employers, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

For the purpose of applying the requirements of GASB No. 68, amended, the state government of the Commonwealth is considered to be the sponsor of the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing Defined Benefit Pension Plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act. No. 3 was enacted on April 4, 2013, amended the Act. No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (See Note 14).

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

m. Restricted Assets

Investments and Certificates

Certain proceeds of the Municipality revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond" maintenance account is used to report those rental proceeds that are restricted for use in maintenance of the properties. The "revenue bond fund account" is used to segregate resources accumulated for debt service payments over the next twelve months. The "Debt Service Account" is used to report resources set aside to make up potential future deficiencies in the "revenue bond fund account".

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

Cash with fiscal agent

The cash with fiscal agent pertaining to the debt service represents property tax collections retained by the Government Development Bank for Puerto Rico and another financial institution restricted for the payment of **Municipality's** debt service (See Note 2) and unused proceeds from bonds and notes issued principally for the acquisition or construction of permanent improvements are accounted in the capital project fund. In debt service fund are unsecured and collateralized, as no collateral is required by governmental banks.

n. Fund Balance

During year ended June 30, 2014, **the Municipality** implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Type Definitions ("GASB 54"). The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The implementation of this statement had no impact on the total fund balances for **the Municipality's** governmental funds.

The Municipality classifies governmental fund balances as follows:

- **Nonspendable**— includes amounts that inherently cannot be spent either because it is not in spendable form (i.e., prepaid, inventories, long-term portions of loans receivable, etc.) or because of legal or contractual requirements (i.e., principal of an endowment, etc.).
- **Restricted** – includes amounts that are constrained by specific purposes which are externally imposed by (a) other governments through laws and regulations, (b) grantors or contributions through agreements, (c) creditors through debt covenants or other contracts, or (d) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – includes amounts that are constrained for specific purposes that are internally imposed by the government through formal actions made by **the Municipality's** legislative body, which is the highest level of decision making authority, before the end of the reporting period. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those mounts.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

- **Assigned** – includes amounts that are intended to be used for specific purposes that are neither restricted nor committed; in addition, such assignments are made before the report issuance date.
- **Unassigned** – include amounts that do not qualify to be accounted for and reported in any of the other fund balance categories. This classification represents the amount of fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other government funds, if expenditures incurred for specific purposes exceeded the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.
- **Encumbrance** – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

The Municipality generally uses restricted amounts first when both restricted and unrestricted (committed, assigned, and unassigned) fund balance is available unless there are legal documents, contracts, or agreements that prohibit doing such. Additionally, **the Municipality** generally would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

o. 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 and in the Statement of Net Position. (See notes contingencies)

p. Use of Estimates

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

q. Totals Column (Memorandum Only) Governmental Funds Statement

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since Interfund eliminations have not been made.

2. PROPERTY TAXES

The Municipal Revenue Collection Center (CRIM) of the Commonwealth of Puerto Rico is responsible by law for the assessment of all real and personal property located within the **Municipality of Ciales** and for the levy, administration and collection of all real and personal property taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property at the current value at the date of the assessment.

Real property taxes are billed by the CRIM and are due in two equal installments in July and January following the assessment date. Personal property taxes are self-assessed and are due in May 15, when the property tax return is required to be filed.

The tax rate per annum is 10.33% for real property and 8.33% for personal property of which 3.83% and 1.83%, respectively, belongs to the Commonwealth of Puerto Rico and 4.25% of both percents belong to **the Municipality**. From the portion belonging to **the Municipality**, 3% represents **the Municipality's** basic rate, which is appropriated for general purposes and, therefore, accounted for through the general fund. The remaining portion belonging to **the Municipality** of 1.25% represents the "ad-valorem" tax withheld by the CRIM as fiscal agent, and restricted for debt service, which is accounted for through the debt service fund (See note 2). **The Municipality** has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

Complete real property tax exemption is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, **the Municipality** receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exemption is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of Treasury instead of the property taxpayer became the source of payment in these cases.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Complete exemption from personal taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

The CRIM reports annually to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to **the Municipality** during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic property tax advances from the CRIM are recorded in the general fund as other financing sources. As this tax is collected and reported by the CRIM, it is recorded in the general fund as revenue. The property tax received from the Department of Treasury, which is related to the exoneration granted by the Commonwealth of Puerto Rico is reflected as revenue in the general fund.

Prior to the beginning of each fiscal year, the CRIM informs the Municipality of the estimates amounts of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, whereby a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers. This settlement has to be completed on a preliminary basis no later than three months after fiscal year-end, and a final settlement made no later six months after year ends. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a payable to the CRIM is recorded at June 30. During July 2002, the Municipality entered into a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001 for approximately \$1.1 million. This amount will be repaid through advances from property taxes (refer to Note 15)

Since the collection of property taxes from the taxpayers is under the administration of the CRIM, the Municipality recognized as an expenditure the operational expenses allocated by the CRIM to the Municipality, which amounted to \$37,692 during 2015.

The following is a summary of the property tax advances that resulted in an accounts receivable, for the year ended June 30, 2015. The resulting payable is presented as a decrease in the general fund and the Government Wide Financial Statements.

Account Receivable

Amortization through collections of property taxes by the CRIM	
07-01-14 - 06-30-15	\$ 5,619,368
Advance received, 07-01-14 - 06-30-15	(5,546,195)
Due to Municipality 2015	\$ 73,173

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

3. DEPOSITS

The **Municipality's** cash and investments at June 30, 2015, were entirely covered by the Federal Depository Insurance Corporation by collateral provided by the banks and held by the Department of the Treasury pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest-bearing accounts in the Government Development Bank for Puerto Rico and is collateralized by the Commonwealth of Puerto Rico.

Puerto Rico law authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws.

4. CONCENTRATION OF CREDIT RISK

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico. **The Municipality** is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, **the Municipality** invested its funds in interest-bearing bank accounts, and short-term certificates of deposit if due date is not more than 90 days, the certificate considered as cash equivalents.

Custodial Credit Risk

The following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2014:

Credit risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In compliance with the laws and regulations of the Commonwealth of Puerto Rico, the Municipality has adopted, as its custodial credit risk policy, the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico. Accordingly, the

Municipality is only allowed to invest in obligations of the Commonwealth of Puerto Rico, obligations of the United States of America, certificates of deposit, commercial paper, bankers' acceptances or in pools of obligations of the Municipalities of Puerto Rico, which are managed by GDB.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

According to the aforementioned investment guidelines, the Municipality is not allowed to invest in marketable securities or any other type of investments (debt securities) for which credit risk exposure may be significant. Consequently, at June 30, 2015 and for the fiscal year then ended, the Municipality invested only in certificates of deposit in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC), generally up to a maximum of \$250,000 per depositor. No investments in debt or equity securities were made during the fiscal year ended June 30, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

Interest rate risk - This is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Municipality manages its exposure to declines in fair values by: (1) not including debt or equity investments in its investments portfolio at June 30, 2015, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of three months or less and (3) keeping most of its banks deposits and certificates of deposit in interest bearing accounts generating interest at prevailing market rates as required by the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the Government Development Bank for Puerto Rico (the adopted policy of the Municipality). At June 30, 2015, the interest rate risk associated with the Municipality's cash and cash equivalent is considered low since the investment portfolio of the Municipality consists of certificates of deposit and do not include debt securities or any type of investments that could be affected by changes in interest rates.

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

In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amounts deposited in excess of the federal depository insurance. All securities pledged as collateral are held in the Municipality's name by the agents of the Commonwealth's Secretary of Treasury. Deposits of GDB are uninsured and **uncollateralized**. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Foreign exchange risk -This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant. Accordingly, management has concluded that the foreign exchange risk related to the Municipality's deposits is considered low at June 30, 2015.

5. MUNICIPAL LICENSE TAXES

The deferred revenue of the general fund correspond to the business tax levied received from the next fiscal year.

The minimum gross revenue to file the Volume of Business Tax Declaration is \$5,000 and the minimum tax payable is \$25. The date to file the Volume of Business Tax Declaration is April 15. The Municipality grants a 5% discount, if the taxes are paid on or before April 15. Otherwise, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

The **Municipality** recognized an account receivable for the estimated municipal license taxes to be collected during the first two months of next year, but corresponding to current year. Municipal license taxes collected prior to June 30, 2015 but pertaining to the next fiscal year is recorded as deferred revenues.

6. INTERFUND TRANSACTIONS

Due From/To Other Funds (Fund Financial Statement)

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The balances of internal transactions of June 30, 2015 are as follows:

Funds	Due From	Due To
General Fund	\$ 560,180	\$ 5,490,014
Canalización de dos Ríos	2,711,000	-
Joint Resolutions	1,222,183	463,788
Other Funds	1,460,439	-
TOTAL	\$ 5,953,802	\$ 5,953,802

For the most part, the effect of inter-fund activity has been removed from the Statement of Net Assets (Government Wide Financial Statements).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

7. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenue consist primarily of governmental payments from the Commonwealth of Puerto Rico and in lieu of tax payments from certain “quasipublic” corporations, such as the Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements. Almost all these intergovernmental revenues are accounted for in the general fund.

8. DUE TO GOVERNMENTAL ENTITIES

As of June 30, 2015 balances due to governmental entities of the general fund consists of the following:

	Current	Long-Term
Name - Due to	Portion	Debt
Puerto Rico Retirement System	\$ 264,902	\$ -
Puerto Rico Department of Labor	187,579	259,769
Puerto Rico Water and Server Authority	284,000	421,171
Puerto Rico Department of Treasury	134,106	-
General Services Administration	886,793	-
Municipal Revenue Collection Center	16,203	-
TOTAL	\$ 1,773,583	\$ 680,940

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

9. CAPITAL ASSETS

Include those changes pursuant to the implementation of GASB Statement No. 34, follows.
Land and construction in progress are not subject to depreciation.

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

	Balance 6/30/2014	Additions	Retirements and transfers dispositions	Balance 6/30/2015
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,706,856	\$ -	\$ -	\$ 1,706,856
Construction in progress	4,877,173	554,553	-	5,431,726
Total capital assets not being depreciated	6,584,029	554,553	-	\$ 7,138,582
Capital assets, being depreciated				
Buildings and building improvements	16,568,880	-	-	16,568,880
Infrastructure	16,325,123	-	-	16,325,123
Vehicles	3,464,010	183,875	57,770	3,590,115
Furniture and Equipment	1,256,955	54,359	3,032	1,308,282
Works of Arts	151,050	-	-	151,050
Total capital assets being depreciated	37,766,018	238,234	60,802	37,943,450
Less: accumulated depreciation for:				
Buildings and building improvements	7,488,670	863,236	-	8,351,906
Infrastructure	5,734,155	408,128	-	6,142,283
Furniture and Equipment	1,289,648	91,340	3,032	1,377,956
Vehicles	3,291,983	189,349	57,770	3,423,562
Works of Arts	135,840	15,210	-	151,050
Total accumulated depreciation	17,940,296	1,567,263	60,802	19,446,757
Total capital assets being depreciated, net	19,825,722	1,805,497	121,604	18,496,693
Governmental activities capital assets, net	\$ 26,409,751	\$ 2,360,050	\$ 121,604	\$ 25,635,275

Governmental activities:	
General government	\$ 666,251
Public safety	93,469
Public works	128,007
Culture and recreation	641,324
Health	38,212
Total depreciation expense governmental activities	\$ 1,567,263

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

9. CAPITAL ASSETS (continued)

Government Wide Financial Statements

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

Vehicles, Heavy Equipment	5-25	\$300
Furniture and Fixture	5-10	\$300
Computer and Electronic Equipment	5	\$300
Buildings	50	\$ 1
Infrastructure	60	\$ 1
Improvements	20-40	\$ 1

In addition, the Municipality assigned a 10% residual value on most Capital Assets.

Fund Financial Statements

The Municipality charged costs of capital outlays as expenditures categories in the Governmental Fund Financial Statements.

10. CHANGES LONG-TERM DEBT

The principal long-term obligation of the Municipality is obligation bonds issued to finance permanent improvements and purchases of equipment. The Municipality's long-term debt retirements are appropriated and paid from resources accumulated in the debt service fund.

The following is a summary of Bonds outstanding at June 30, 2015:

Description	Beginning Balance	Additions	Reductions	Ending Balance
General Obligations Bonds	\$ 8,567,000	\$ -	\$ 452,000	\$ 8,115,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. CHANGES IN GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds:

Description	Balance 06-30-2015	Due within One Year
Serie 2003, \$250,000 payable in annual installments \$5,000 to \$25,000 until 2028; with interest ranging from 1.50% to 6.62%	185,000	10,000
Serie 1997, \$400,000 payable in annual installments \$10,000 to 40,000 until 2016; with interest ranging from 1.50% to 8%	70,000	30,000
SUB-TOTAL	\$ 255,000	\$ 40,000

General Obligation Bonds:

Description	Balance 06-30-2015	Due within One Year
Serie 1992, \$181,000 payable in annual installments of \$4,000 to \$13,000 until 2017; with interest ranging from 5%	\$ 26,000	\$ 13,000
Serie 2009, \$1,555,000 payable in annual installments of \$15,000 to \$175,000 until 2024; with interest ranging from 4.75% to 7.5%	1,430,000	100,000
Serie 2010, \$755,000 payable in annual installments of \$25,000 to \$130,000 until 2019; with interest ranging from 5% to 7.5%	540,000	90,000
Serie 2011, \$415,000 payable in annual installments of \$5,000 to \$360,000 until 2017; with interest ranging from 6% to 7.5%	40,000	20,000
Serie 2012, \$1,110,000 payable in annual installments of \$15,000 to \$95,000 until 2036; with interest ranging from 6% to 7.5%	1,055,000	20,000
SUB-TOTAL	\$ 3,091,000	\$ 243,000

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Special Revenue Bonds:

Description	Balance 06-30-2015	Due within One Year
Serie 2008, \$1,210,000 payable in annual installments of \$40,000 to \$140,000 until 2022; with interest ranging from 1.50% to 7.50%	880,000	80,000
Serie 2009, \$523,000 payable in annual installments of \$51,000 to \$82,000 until 2016 with interest ranging from 1.50% to 7.50%	159,000	77,000
Serie 2011, \$3,765,000 payable in annual installments of \$70,000 to \$330,000 until 2031; with interest ranging from 6% to 7.50%	3,440,000	95,000
Serie 2012, \$305,000 payable in annual installments of \$5,000 to \$30,000 until 2036; with interest ranging from 6% to 7.50%	290,000	5,000
SUB-TOTAL	\$ 4,769,000	\$ 257,000
TOTAL	\$ 8,115,000	\$ 540,000

The annual debt service requirements for the bonded debt outstanding as June 30, 2015 are as follows:

Year Ending	Principal	Interest	Total
2016	\$ 540,000	\$ 395,342	\$ 935,342
2017	580,000	382,347	962,347
2018	490,000	441,863	931,863
2019	515,000	466,313	981,313
2020	560,000	426,151	986,151
Subsequent years	5,430,000	2,784,641	8,214,641
TOTAL	\$ 8,115,000	\$ 4,896,657	\$ 13,011,657

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the **Municipality**, for bonds to be repaid with the proceeds of property tax restricted for debt services. Other obligations include compensated absences; LIMS refinance debt, claims and judgments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Component Unit

The original mortgage, in the amount of \$1,945,000 was payable to Rural Housing Services (RHS) and collateralized by the apartment complex. The required monthly principal and interest payments totaled \$11,053. On November 14, 1997, the mortgages on the property were transferred from the Puerto Rico Urban and Housing Service, the mortgagee, recalculated and adjusted the amortization of the mortgages at the time, resulting in a smaller monthly payment. The revised payments of the three mortgages commenced on December 1, 1997.

Under agreements with RHS, the project is required to make monthly escrow deposits for insurance and replacement of Project assets, and is subject to restrictions as to operating policies, rental charges and operating expenditures.

The liability of the Project under the mortgages is limited to the underlying value of the real estate, plus other amounts deposited with the lender.

The mortgages are insured by RHS, collateralized by the Project, and consist of the following:

Interest at 6.6%, payable in monthly installments of \$8,159, including interest, through the due date, December 2031.	\$ 1,068,363
Interest at 8.75%, payable in monthly installments of \$2,351 including interest, through the due date, December 2031.	260,285
Interest at 11.25%, payable in monthly installments of \$543, including interest, through the due date, December 2032.	51,184
Total Long-Term Debt	1,379,832
Less: current maturities	(41,482)
Long-Term Debts - Enclosing Current Installments	\$ 1,338,350

The interest rates shown above are net of 2% interest rental credit.

Aggregate maturities of the mortgage payable for each of the next five years following June 30, 2015 and thereafter, are as follows:

Year ended June 30	Amount
2016	\$ 41,682
2017	45,366
2018	49,620
2019	54,278
2020 and thereafter	1,188,886
	\$1,379,832

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

12. DEBT SERVICE FUND

The revenues of the debt service fund arise from the additional property tax and are recognized when collected and reported by the CRIM (See Note 2). The CRIM retains these collections for the payment of principal and interest of bonds and notes issued by the Municipality used. Interest income is used for the payment of interest or special obligations notes and property taxes are for the debt service requirements of the general obligations bonds and notes.

The Government Development Bank pays principal and interest on these obligations for Puerto Rico from funds obtained from the Following:

Property taxes	\$ 441,156
General funds	32,515
Municipal sales tax	797,302
TOTAL	\$ 1,270,973

Expenditures for the year 2014-2015 were as follows:

Principal	\$ 452,000
Interest	513,742
TOTAL	\$ 965,742

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN

Plan Description

Regular full time employees of the Municipality contribute to a cost sharing multiple-employer defined benefit retirement plan, administered by the Employee' 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, public corporations and the municipalities of Puerto Rico. The system provides retirements pensions, death and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation. The system was created under Act 447, approved on May 15, 1951, "Retirement Pensions, Disability and Death Benefits", as amended, and became effective on January 1, 1952. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS at GPO Box 42005, San Juan, Puerto Rico 00940.

The annual retirement benefits for those regular full-time employees hired on or before March 31, 1990 or those attaining permanent status before that date (Old Plan) and for those hired or attaining permanent status on or after April 1, 1990 (New Plan) are as follows:

OLD PLAN (LAW 447)

Eligibility

Age 55 and 30 years
Of service

Under 55 and 30 years
Of service

Pension Benefits

5% of average highest compensation
during any years of credited service

65% of average highest compensation
during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

No benefit is payable if the participant receives a refund of his accumulated contributions.

NEW PLAN (REFORMA 2000)

Eligibility

Age 65 with 10 years
of service

Pension Benefits

.5% of average compensation during
the final 5 years of credited services
multiplies by the numbers of years
credited service

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

13. RETIREMENT PLAN (continuation)

For both plans, the employees are vested when attaining ten years of plan participation. Disability and death benefits are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

Reform 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by ERS, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary upon to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn rate equal to 75% of the return of the ERS's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under Reform 2000. The employer's contribution (9.275% of the employee's salary) will be used to fund the current plan.

Defined Contribution Hybrid Program – On April 4, 2013 the Legislature enacted Act No. 3 which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the “Hybrid Program”) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2015 were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2015, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reach the age of 58 and completed 10 years of service or have not reach the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

13. RETIREMENT PLAN (Continuation)

Participants in the defined contribution plan who as of June 30, 2014, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2014, have not reached the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (.25%) is required for the purchase of disability insurance.

The Municipality is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than \$10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract

Funding Policy

The Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employer and other contributing entities are established or may be amended. The required contributions made by **the Municipality** were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to **the Municipality** has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Contribution Requirements

The Municipality's total payroll for the fiscal year 2015 amounted to approximately \$2.5 million. The Puerto Rico Commonwealth legislation requires employees to contribute 5.775% of gross salaries up to \$6,600 plus 8.275% of the gross salary in excess of \$6,600. The Municipality is required to contribute 9.275% of gross salary annually during year 2015. The Municipality actual contribution under Act 447 and Reform 2000 during year ended on June 30, 2015 was \$292,631.

Actuarial Valuation

As of June 30, 2013, the ERS has an unfunded accrual liability of approximately \$22.9 billion, representing a 3% funding ratio. This information is not available by each participating government agency or municipalities.

Net position of the system consists principally of investments in stocks and bonds and loans to participants. The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

- a) Interest rate 6.4% a year
- b) Salary increases 3.0% year
- c) Pre-retirement Mortality For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

Post-retirement Health Mortality Gender-specific mortality rates were developed based on a study of plan's experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.

Post-retirement Disabled Mortality RP 2000 Disabled Annuitant Mortality Rates, without projection.

- d) Termination Withdrawal rates vary by employee category. The annual rate of termination is as follows:
 - For general employees 2.0%
 - For police and fire 1.6%
 - For Mayors 3.0%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

e) Disability

Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 75% of the Highest Salary maximum benefit.

Adjustment to 1987 CGDT		
Act	Members Covered under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	100% if more than 10 years from retirement eligibility. 300% if at or past retirement eligibility. Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility.	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

f) Retirement

Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (Eligible to retire as of June 30, 2013 or attained 30 years of creditable service by December 31, 2013)			
	Service Condition		
Age	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

Act 1 General Employees (Eligible to Retire as of June 30, 2013)		
	Service Condition	
Age	10 years	25 years
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63-64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

System 2000 General Employees		
Age	Eligible to retire as of June 30, 2013	Not Eligible retire as of June 30, 2013
60	15%	
61-64	15%	10%
65	15%	40%
66	15%	20%
67	100%	100%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

13. RETIREMENT PLAN (Continuation)

Actuarial Valuation (Continued)

Act 447 (Police officer in high risk positions who were eligible to retire as of June 30, 2013)			
Age	Service Condition		
	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	100.0
65 to 69	10.0	30.0	100.0
70	100.0	100.0	100.0

System 2000 (Public officers in high risk positions)	
Age	Any Service
55	25.0%
56 to 64	20.0%
64 to 66	25.0%
67	100.0%

Act 447 and Act 1 Mayors			
Age	Service Condition		
	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

System 2000 Mayors	
Age	Any Service
60 to 66	15.0%
67	100.0%

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

13. RETIREMENT PLAN (Continuation)

- | | |
|--------------------------------------|---|
| g) Marriage | 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die service or become disabled are assumed to have qualifying beneficiaries, which are approximately by a spouse with males 4 years older than females. |
| h) Number of employees electing high | 15% of retiring employees assumed to pay contributions retroactive contributions at retirement. |
| i) Cost-of-living adjustments | 3% every third year |

Accordingly, the pension expense for fiscal year 2015 was approximately \$292,631 that represented 100% of the contributions required by funding policies of the Plan.

Additional information of ERS is provided in its financial statements for the year ended June 30, 2014 a copy of which can be obtained from the ERS, Minillas Station, PO Box 42003, San Juan, PR 00940.

14. PENSION PLAN

Description of the Plan

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

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 215 participating employers (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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

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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)
- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age all regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

However, as a result of budgetary constraints at the present time only \$14.9 million was paid by the Commonwealth and 20.5 million paid by public corporations and municipalities during fiscal year 2014. The additional contribution for the fiscal year 2015 was \$27.0 million paid by the Commonwealth and \$27.0 million paid by public corporations and municipalities.

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

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

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment.

The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately \$16 million for its responsibility as an employer under Act No. 70 Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the System 2000 to Chapter 5 of the ERS.

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

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Participant of the Program

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

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

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

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

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars (\$10,000).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

In the event the annuitant worked five (5) years or more and contributed ten thousand dollars (\$10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from

Annuity for Years of Service

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

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty years and have completed at least twenty-five (25) years of creditable service. Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity.

Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty-eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Benefits Provided

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years.

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

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

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

- (1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.
- (2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.
- (3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

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

- (1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:
 - (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years. of age and has completed at least 10 years of service

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

- (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.
 - (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.
- (2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 — For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.
- (3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service. For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.
- (4) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:
- (i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.
 - (ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Pension Computation

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

- (i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.
- (ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.
- (iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.
- (i) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.
- (ii) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.
- (iii) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

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

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

- (i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.
- (ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.
- (iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.
- (iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.
- (v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

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

Funding Policy

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

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

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

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

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

- (a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.
- (b) Contributions under the Plan of Coordination with Social Security benefits — The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Program:

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Employer Contributions to the System (ERS and Hybrid Program)

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

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

Death of a Pensioner

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

Separation from Service for Disability or Terminal Illness

The balance in the contribution account of every participant of the Hybrid Program who is permanently separated from service due to total and permanent disability, due to disability pursuant to Act No. 127 of June 27, 1958, as amended, or due to terminal illness, as determined by the Administrator, shall be distributed to the participant by the Administrator in a lump sum, or through the grant of an annuity, or any other optional form of payment pursuant to Section 5-110 of Act No. 447, at the option of the participant.

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

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to \$28,076.

Additional Benefits Program

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

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

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

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

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

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

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

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

As June 30, 2015, the Municipality reported \$25.1 million as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

At June 30, 2014, the Municipality's proportionate share was .08355%. The Municipality's proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

This information was not available:

These information was not available	Proportionate Share of Net Pension Liability
Act Number 447	_____
Act Number 1	_____
Act Number 305	_____
Total Net Pension Liability	<u>\$ 25,141,152</u>

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of \$3.4 million As of June 30, 2015; the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

This information was not available:

These information was not available	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributors subsequent to in measurement date	_____	_____
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributors	-	-
Net differences between projected and actual earnings on plan investments	<u>\$ 887,196</u>	<u>\$ 208,122</u>

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

\$887,196 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

Information not available:

2016	\$ -
2017	-
2018	-
2019	-
2020	-

Actuarial Assumptions

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

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

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

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

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

14. PENSION PLAN (Continuation)

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

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

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

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

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

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

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

Liquid Assets

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

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

Net Pension Liability	June 30, 2015	
	Total	Proportional Share
Total Pension Liability	\$ 30,219,517,000	\$ 25,141,151
Fiduciary Net Position	127,488,000	1,060,637
Net Pension Liability	30,092,029,000	24,080,594
Fiduciary Net Position as a % of Total Pension	42%	8,414
Covered Payroll	\$ 3,489,096,000	\$ 2,902,756
Net Pension Liability as a % of	862.46%	71.75%

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

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

Discount Rate

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

	June 30,	June 30,
Discount Rate	4.63%	4.29%
Long-term expected rate of return net of	6.40%	6.75% ^{o/»}
Municipal bond rate *	4.63%	4.29%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as June 30, 2014	\$ 25,141,151	\$ 1,060,637	\$ 24,080,757	\$ 20,033,851
Changes for the year:				
Service Cost	419,183,000	-	419,183,000	3,487,396
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	1,099,404
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(61,855,000)	-	(61,855,000)	51,460
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	996,933
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	-
Other Expenses	-	(25,875,000)	25,875,000	-
Costs of Bonds	-	(192,947,000)	192,947,000	-
Member Contributions	-	359,862,000	(359,862,000)	-
Net Investment Income	-	253,558,000	(253,558,000)	-
Employer Contributions	-	660,024,000	(660,024,000)	-
Balance as June 30, 2015	\$ 1,303,290,151	\$ (572,812,363)	\$ 1,876,102,757	\$ 25,669,044

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

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

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

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	\$ 24,889,739	\$ 25,141,151	\$ 25,392,563
Fiduciary Net Position	\$ 1,050,021	\$ 1,060,627	\$ 1,071,233
Net Pension Liability	\$ 23,839,723	\$ 24,080,528	\$ 24,321,329

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

14. PENSION PLAN (Continuation)

Pension Plan Fiduciary Net Position

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

15. LONG TERM LIABILITIES

Compensated Absences

The liability for compensated absences was recorded in the Government-wide financial statements. The balance consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The changes in Compensated absences for the year ended June 30, 2015 are as follows:

Governmental activity	June 30, 2014	Net Increase	June 30, 2015	Due within One year
Compensated Absences	\$448,914	\$244,030	\$692,944	\$75,000

16. LEASES

Operating Leases

The Municipality has several short-term operating lease agreements covering some of **the Municipality's** premises and equipment. Most of the agreements are renewed annually. Total rental expenditures for the year ended June 30, 2015, were approximately \$60,000 included in all funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

17. CLAIMS AND CONTINGENCIES

Contingencies

As per Act No. 72 of September 7, 1993, Act of the Health Insurance of PR Administration”, (HIA) should negotiate with the municipalities a contribution from the operational budget for the medical services covered by the Health Care Reform. The Municipality paid \$414,599 during the year to Health Insurance of PR Administration.

On July 1, 1997, there was an amendment to Act No. 72 in which it was established that the balance due to HIA from October 1994 to June 30, 1997 would be earned from the additional lottery games.

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality’s grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit on behalf of the grantors to assure compliance with grant provisions. If expenditures are disallowed due to noncompliance with grant program requirements, **the Municipality** may be required to reimburse the grantor agency. Accordingly, the Administrations compliance with applicable grant requirements will be established at some future date.

Comptroller’s Office Audits

The Municipality of Ciales, Puerto Rico, has been audited by the Comptroller’s Office of the Commonwealth of Puerto Rico. The Comptroller’s Office has issued a final report on August 19, 2013 related to the financial operations of the Municipality covering on January 1, 2009 until December 31, 2010. These audit reports do not cover any findings subsequently disclosed to Municipality operations by the Comptrollers’ Office.

Contingencies and claims and judgments against the Municipality

The **Municipality** is a defendant in a number of lawsuits arising principally from claims against the **Municipality** for alleged improper actions. It is management’s opinion, based on the advice of the legal counsel, that the probable claims against the **Municipality** not covered by insurance are not determined at June 30, 2015.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

18. MUNICIPAL SALES TAX

Pursuant to the provisions of the Law number 80 of July 29, 2007 and effective August 1, 2007, the citizenship contribution was uniformly established in 1.5%, of which 1% will be collected by the Municipalities and the remaining .5% will be collected by the Treasury Department of the Commonwealth of Puerto Rico. Also, this Law uniformed the use of the contributions of 1.5% in the following activities; solid waste disposal costs, recycle, public works and improvements, health services and security services.

The Municipalities of Puerto Rico are responsible to collect 1% of the corresponding tax with the same exemptions and limitations that the portion collected by Treasury Department. The Act provides and optional surtax on the un-processed food. This surtax must be approved by the Municipal Legislature. The Treasury Department is responsible to create the Municipal Development Fund (.02%), the Municipal Redemption Fund (.02%) and the Municipal Improvements Fund (.01%0 with the remaining 0.5%. The Municipality collected \$217,869 during the year ended June 30, 2015.

19. RESTATEMENT OF 2013 and 2014 FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2015 **the Municipality** noted that certain assets were reclassified and liabilities had been overstated or understated as well as other differences related with adjustments to capital assets and reclassification of certain fund balances. The beginning balance from the prior year was reported with some discrepancies. The fund balance of June 30, 2013 was corrected and fund balance of June 30, 2014 was corrected. The accounts payable and debts were revised in order to adjust or record amounts not adjusted. The net position was adjusted to record the net pension liability from prior years.

	General	Canalizacion	Joint	Debt	Other	Total
	Fund	Dos Rios	Resolution	Service	Funds	Funds
Fund balance June 30, 2013 (deficit) reported	\$ (6,650,600)	\$ 2,711,234	\$ 1,077,619	\$ 1,075,483	\$ 259,733	\$ (1,526,531)
Prior period adjustments June 30, 2012 (Note 19)	(105,107)	(42,000)	(113,269)	-	(1,697,717)	(1,958,093)
Fund balance June 30, 2012 (deficit) corrected	(6,755,707)	2,669,234	964,350	1,075,483	(1,437,984)	(3,484,624)
Prior period adjustments June 30, 2013 (Note 19)	266,741	42,000	(128,982)	(157,589)	2,931,983	2,954,153
Fund balance June 30, 2013 (deficit) corrected	(6,488,966)	2,711,234	835,368	917,894	1,493,999	(530,471)
Beginning Balance Restated	(6,488,966)	2,711,234	835,368	917,894	1,493,999	(530,471)
Prior period adjustments (Note 19)	92,449	-	(10,173)	57,785	656,766	796,827
Fund balance Juen 30, 2014 (deficit) corrected	\$ (6,396,517)	\$ 2,711,234	\$ 825,195	\$ 975,679	\$ 2,150,765	\$ 266,356

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

20. SUBSEQUENT EVENTS:

In preparing these financial statements, the Municipality evaluated events and transactions that occurred after the financial statements date for potential recognition or disclosure through May 17, 2016, the date on which the financial statements were issued

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantors Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed-through State Commissioner of Municipal Affairs			
Community Planning and Development			
Community Development Block Grant (State Program)			
CDBG	14.218	2009 to 2013	\$ 648,845 *
Direct Program:			
Section 8- Housing Choice Voucher	14.871	RQ-052	364,307 *
Passed-through Municipality of San Juan			
HOWPA	14.241	2014-2015	13,771
Total U.S. Department of Housing and Urban Development			<u>1,026,923</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-through the Office of Administration for Children and Families:			
Care and Integral Development Block Grant			
	93.575	N/A	229,581 *
Total U.S. Department of Health and Human Service			<u>229,581</u>
<u>U.S. Department of Transportation Federal Transit Administration</u>			
Direct Program:			
Federal Transit - Capital Investment Grants	20.500	N/A	599
Total U.S. Department of Transportation Federal Transit Adm.			<u>599</u>
<u>U.S. Department of Agriculture</u>			
Passed-through the Commonwealth of P.R. Governors Office for the:			
Child Care - Food Program			
	10.558	N/A	42,757
State and Community Highway Safety			
	20.600	N/A	128,185
Total U.S. Department of Agriculture			<u>170,942</u>
<u>U.S. Department of Education (DE)</u>			
Passed-through Education Department, Commonwealth of Puerto Rico			
Even Start-State Educational Agencies			
	10.558	N/A	374,186 *
Total U.S. Department of Education (DE)			<u>374,186</u>
<u>U.S. Department of Justice</u>			
Passed-through Department of Justice, Commonwealth of P.R.			
Recovery Act - Edward Byrne Memorial Justice			
Assistance Grant (JAG) Program			
	16.804	2012-DJ-MCIMC-01	56,347
Total U.S. Department of Justice			<u>56,347</u>
TOTAL EXPENDITURE FEDERAL AWARDS			<u><u>\$ 1,858,578</u></u>

See notes to the schedule of expenditures of federal awards.

*Mayor Programs

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

(1) GENERAL

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Municipality of Ciales, Puerto Rico and is presented on the modified accrual basis of accounting. The reporting entity is defined in Note 1 to the financial statements of the Municipality. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) MAJOR FEDERAL AWARDS

The Community Development Block Grants, Housing Assistance Payments Programs, Health and Human Services Programs, Department of Agriculture Programs, Department of Justice Programs and represents the major federal financial awards of the Municipality. Major federal awards represent 86% of total expenditures.

(3) FEDERAL CFDA NUMBER

The CFDA numbers included in this schedule were determined based on the program name review of grant contract information and the office of management and budget catalog of Federal Domestic Assistance.

Pass-Through Grantor's Number

State or local government and private entities includes within their federal proposal award the related amount of federal awards granted to SIM, also known as “pass-through awards”. SIM should consider these federal funds as though they were received directly from the federal government. OMB Circular A-133 requires that the schedule should include the name and the identifying number assigned for federal awards received as sub-recipient Numbers identified as N/A are not applicable or available.

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Federal financial assistance expenditures are reported in the Municipality of Ciales, Puerto Rico Combined Statement of Revenues, Expenditures and Change in Fund Balances - All Governmental and Types as follows:

Description	Hud Programs	Other funds	Total
Federal Programs Expenditures	\$ 1,026,923	\$ 831,655	\$ 1,858,578
State & Municipal Expenditures	-	11,848,624	11,848,624
TOTAL	\$ 1,026,923	\$ 12,680,279	\$ 13,707,202

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

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Ciales
Ciales, Puerto Rico

I 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 their governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Ciales, as of end for the year ended June 30, 2015, and the related statements, which collectively comprise Municipality of Ciales basic financial statements, and have issued my report thereon dated September 29, 2016.

Internal Control over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Ciales financial statements are free from material misstatement, I performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amount. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no 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 mentioned in items 15-04 and 15-05.

Purpose of this Report

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

Arecibo, Puerto Rico
September 29, 2016

The stamp number E248005
was affixed to the record
original report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

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

Honorable Mayor and Members
Of the Municipal Legislature
Municipality of Ciales
Ciales, Puerto Rico

Report on Compliance for Each Major Federal Program

I have audited Municipality of Ciales compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Municipality of Ciales major federal programs for the year ended June 30, 2015. Municipality of Ciales 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 program.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Municipality of Ciales major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Municipality of Ciales compliance.

Opinion on Each Major Federal Program

In my opinion except for the noncompliance described in the accompanying schedule of findings, and questioned costs, as items 15-04 and 15-05 Municipality of Ciales complied, in all material respects, with the types of compliance requirements referred to above that could have a direct effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Municipality of Ciales is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality of Ciales internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the Municipality of Ciales 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.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Ciales as of and for the year ended June 30, 2015, and the not to the financial statements which collectively comprise Municipality of Ciales basic financial statements. I issued my report thereon dated September 29, 2016, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Arecibo, Puerto Rico
September 29, 2016

The stamp number **E 248006**
was affixed to the record
original report.



Juan A. Feliciano Charneco
CPA JUAN A. FELICIANO CHARNECO
License No. 1263
Expires December 1, 2016

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Part I - Financial Statements

1. Type of auditor’s report issued: Unmodified
- j. Internal control over financial reporting:
- Material weakness (es) identified? ___ Yes X No
- Significant deficiency(s) identified not considered
to be material weaknesses? ___ Yes X No
- k. Noncompliance material to financial statements noted? ___ Yes X No

Part II - Federal Awards

1. Internal control over major programs:
- Material weakness (es) identified? ___ Yes X No
- Significant deficiency(s) identified not
Considered being material weaknesses? ___ Yes X No
2. Type of auditor’s report issued on compliance
for major programs Unmodified
3. Any audit findings disclosed that are required to be
Reported in accordance with Circular A-133,
Section .510(a) are reported ___ Yes X No
- Dollar threshold used to distinguish
Between type A and type B Programs \$521,735
- Auditee qualified as low-risk audit X Yes ___ No

B - Financial Statements Findings

No matters were reported regarding reportable conditions, material weaknesses, and instances of non-compliance related to the financial statements that are required to be reported in accordance with paragraph 5.18 through 5.20 of Governmental Auditing Standards.

C – Federal Award Findings and Questioned Costs

Federal Program Information

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Program: Accounting and Finance Department
General Fund – Deficit
Year ended June 30, 2015**

Ref. No. Finding / Noncompliance

2015-01 **Statement of Condition and Criteria**

It was noted in my test of balance of accounts that the Municipality is not complying with the criteria established by the Standards of Financial Management Systems for Regulations for Municipal Administration and with GASB codifications 1700, with requirements stated in OMB Circular A-133.

Cause

The Municipality has significant deficiencies in its accounting and financial management systems and financial reporting practices as related to budgets for General Fund.

Effect

The lack of budget results does not permit the Municipality:

- a) To provide services to citizens without affecting them.
- b) To determine compliance with finance – related legal and contractual provisions.

Auditors Recommendation

The Municipality should revise and evaluate in a monthly basis revenues and disbursements to adjust disbursements to the revenues receipt to comply with the Budget requirements of Municipal Law number 81 of August 30, 1991 as amended. Implement measure to reduce the Municipal deficit. Evaluate the impact in the revenues of the change in construction tax and the increase of the real and personal taxes. Evaluate the impact in the disbursement to reduce hours of services of employees, evaluate and revised transitory contracts with employees, approve only necessary professional services, reduce confidence employees salary and consolidate services.

Municipality Response

We concur with auditor’s recommendations. The Municipality will evaluate the actual administrative procedures being followed. The Municipality management took serious and radical measure to minimize the impact of this condition and expects to correct in the near future.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Financial Statements Findings

Ref. No. Finding / Noncompliance

2015-02 **Financial Reporting – Accounting Records**

During our examination of the Municipality's implemented a new accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce government Wide Financial Statements. Manual system maintained by finance department personnel do not provide adequate and effective financial information to generate the basic financial statements since the accounts balances were affected by accounting errors in the first year of the system operations,

Therefore, the Municipality's hires the professional service of local accounting firms to perform the required adjustment entries to convert its 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 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 produce accounting reports 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 did not provide monthly 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 to the Municipality's Management to implement the appropriate modifications 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, and provide the financial statements required by GAAP and Law NO.81.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Accounting Records – Interfund Transactions
Year ended June 30, 2015**

Ref. No. / Finding / Noncompliance

2015-03 **Statement of Condition**

The Municipality does not maintain an accurate record over the special revenue funds transactions and the interfund transactions of Municipality funds.

During our examination of the accounting records, we noted that the Municipality does not maintain adequate subsidiary records to accurately account for interfund balances, presented in the Balance Sheet, for the fiscal year 2014-2015. This situation caused that the general fund and various special revenue funds were used as loans to pay operational costs of the funds.

Criteria

Article 8.004 (c) of the State Law Number 81 – Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico de 1991 – August 30, 1991, states that the restricted funds received by the Municipality should be only used for the purposes established by the resources. In addition, Article 8.010 (c) (2) and (3) of State Act Number 81 stated that the Municipality should maintain accurate accounting records and funds controls.

Cause

The Municipality did not maintain an adequate control of the accountability of the interfund transactions and the due from and due to account balances.

Effect

The Municipality is not in compliance with Chapter VIII, Article 8.004 (c) and Article 8.010 (c) (2) (3) of the State Act No. 81.

Recommendation

We recommend management to implement procedures in order to obtain and maintain all the required documentation regarding the interfund transactions.

Questioned Cost

None

Management Response and Corrective Action

As part of our corrective action plan, we will identify the origin of all Municipality's interfund transactions, in order to realize the necessary adjustments to correct any discrepancies identified. In addition, we will implement accounting records to account for such transactions.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Capital Assets and Expenditures – Subsidiary Ledger
Year ended June 30, 2015**

Ref. No. / Finding / Noncompliance

2015-04 **Statement of Condition**

The Municipality has not maintained complete and adequate records in order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly the amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not determinable.

Criteria

Chapter IX, Article 9.002 of State Act. Number 81 of August 30, 1991 states that the Municipality should maintain updated property accounting records. Also, the GASB Statement No. 34 requires that all capital assets, including infrastructure, must be presented in the Statement of Net Position and that these assets must be depreciated during its useful life.

Cause

Competent and sufficient evidential matter related to the capital assets was not available to support the value, completeness and ownership of these assets.

Effect

The Municipality Government-Wide Financial Statements does not present fairly, the financial position of the governmental activities, and the change in financial position of the Municipality.

Recommendation

We recommend that the Municipality should continue the compilation of documents to support the value, completeness and ownership of its capital assets, necessary to comply with the requirements of the GASB Statement No. 34.

Questioned Cost

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF CIALES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Single Audit Act
Year ended June 30, 2015**

Ref. No. / Finding / Noncompliance

2015-05 **Statement of Condition**

The Single Audit Report for the fiscal year ended June 30, 2015, was not issued within nine (9) months after the end of the audit period.

Criteria

The Single Audit Act of 1984, as amended, require that the audit report must be submitted to the Federal Audit Clearinghouse no later than nine (9) months after the end of the audit period.

Cause

The Municipality did not comply with the established regulation as prescribed in OMB Circular A-133.

Effect

The Municipality could lose federal grants since the noncompliance with Act requirements.

Recommendation

Procedures should be implemented to ascertain that the Municipality complies with the established Federal Regulation, as prescribed by OMB Circular A-133.

Questioned Cost

None

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2015**

<u>Ref. No.</u>	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
2015-01	<p><u>Statement of Condition:</u> It was noted in my test of balance of accounts that the Municipality is not complying established by the Standards of Financial Management Systems for Regulations for Municipal Administration and with GASB codifications 1700, with requirements stated in OMB Circular A-133.</p> <p><u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to permit the preparation of reliable budget and comply with all standards, requirements and laws that apply.</p> <p><u>Person Responsible:</u> Mrs. Ana M. Rosario Otero Finance Director</p>	On or before end of 2015-16 fiscal year
2015-02	<p><u>Statement of Condition:</u> During our examination of the Municipality's implemented a new accounting system, we noted that the Municipality's accounting record for Local, State and Federal funds does not provide modified basis financial statements. Also, the accounting system does not offer subsidiaries to produce Government Wide Financial Statements. Manual systems maintained by finance department personnel do not provide adequate and effective financial information to generate the financial statements since the accounts balances were affected by accounting errors in the first year of the system operations,</p> <p><u>Corrective Action Planned:</u> The Finance Director will implement the appropriate control procedures to produce the needed accounting reports.</p> <p><u>Person Responsible:</u> Mrs. Ana M. Rosario Otero Finance Director</p>	On or before end of 2015-16 fiscal year

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2015**

<u>Ref. No.</u>	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
<u>2015-03</u>	<u>Statement of Condition:</u> The Municipality does not maintain an accurate record over the special revenue funds transactions and the interfund transactions of Municipality funds. <u>Corrective Action Planned:</u> The Finance Director will establish adequate procedure to Obtain the information needed to record the funds transactions and interfund transaction and comply with all standards, requirements and laws that apply. <u>Person Responsible:</u> Mrs. Ana M. Rosario Otero Finance Director	On or before end of 2015-16 fiscal year

<u>Ref. No.</u>	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
<u>2015-04</u>	<u>Statement of Condition:</u> The Municipality has not maintained complete and adequate records In order to obtain sufficient, competent evidential matter with respect to the Capital Assets reported in governmental activities and, accordingly the amount by which this departure would affect the assets, net position, and expenses of the governmental activities are not determinable. <u>Corrective Action Planned:</u> The Finance Director will record the programs to procedure the accounting reports. <u>Person Responsible:</u> Mrs. Ana M. Rosario Otero Finance Director	On or before end of 2015-16 fiscal year

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2015**

Ref. No.	<u>Finding /Corrective Action</u>	<u>Anticipated Completion Date</u>
<u>2015-05</u>	<u>Statement of Condition:</u> The Single Audit Report for the fiscal year ended June 30, 2015 was not issued within nine (9) months after the end of the audit period. <u>Corrective Action Planned:</u> The Finance Director will implement the appropriate computer programs to procedure the accounting reports. <u>Person Responsible:</u> Mrs. Ana M. Rosario Otero Finance Director	On or before end of 2015-16 fiscal year