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ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL
ÁREA DE ARCHIVO DIGITAL**

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015

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**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

| <u>FINANCIAL SECTION</u> | <u>PAGE</u> |
|--|--------------------|
| Independent Auditor's Report | 1-4 |
| Management's Discussion and Analysis | 5-11 |
| Basic Financial Statements: | |
| Governmental –financial statement: | |
| Statement of Net Position | 12 |
| Statement of Activities | 13-14 |
| Fund Financial Statements: | |
| Governmental funds | 15 |
| Balance Sheet | |
| Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 18 |
| Proprietary funds | |
| Statement of Financial Position | 19 |
| Statement of Activities | 20 |
| Statement of Cash Flows | 21 |
| Notes to the Financial Statements | 22-48 |
| <u>REQUIRED SUPPLEMENTARY INFORMATION</u> | 49 |
| Schedule of Budgetary Comparison – General Funds | 50 |
| Notes to Schedule of Budgetary Comparison | 51-52 |
| Schedule of proportionate share of the net pension liability | 53 |
| Schedule of contributions | 54 |
| Schedule of Expenditures of Federal Awards | 55-56 |
| Notes to Schedule of Expenditures of Federal Awards | 57 |
| 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 | 58-60 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 61-64 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 65 |
| Section I. – Summary of Auditor's Results | 66 |
| Section II. – Financial Statements Findings | 67-68 |
| Section III. - Federal Awards Findings And Questioned Costs | 69 |
| EXHIBIT-I CORRECTIVE ACTION PLAN | 70 |

COMMONWEALTH OF PUERTO RICO

MUNICIPALITY OF LOÍZA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015



CARLOS R. DIAZ, CPA, PSC

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Municipal Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Loíza, Puerto Rico** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality of Loíza, Puerto Rico's** basic financial statements as listed in the table of contents. We did not audit the financial statements of the business type activities.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brisas de Loíza Project which represent 100% of total assets, net position (deficiency) and revenue of the business type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Espiritu Santo Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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

Basis for qualified opinion on governmental activities, general fund and aggregated remaining funds

The accounting records of the Municipality of Loíza related to interfund transactions and accounts payable are not adequate. Accordingly, we were unable to obtain sufficient evidence to support and satisfy ourselves about the amount recorded in each major funds and aggregate remaining funds information as due from/due to other funds and accounts payable, stated at \$3,359,134 and \$3,265,960 respectively, in the total governmental funds column of the balance sheet.

Basis for qualified opinion on governmental activities

The net pension liability and deferred outflows/inflows of resources in governmental activities of the government-wide statement of net position, and pension expense for the current period change in that liability in governmental activities of the government-wide statement of activities were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, and pension expenses of the governmental activities and the information disclosed in the notes of the pension plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosures were necessary. The net pension liability and deferred outflows/inflows of resources represent 66 percent, 100 percent and 37 percent of the total liabilities, deferred outflows/inflows of resources and pension expense, respectively, as of June 30, 2015, while pension expense represents 12 percent of total expenses for the fiscal year then ended.

Summary of opinions:

Type of opinion:

| | |
|---------------------------|-------------|
| Governmental activities | Qualified |
| Business type activities | Unqualified |
| General fund | Qualified |
| Debt services funds | Unqualified |
| Aggregate remaining funds | Qualified |
| Proprietary fund | Unqualified |

Qualified opinion on governmental activities

In our opinion, except for the effects of the matters described in the "Basis for qualified opinion on governmental activities, general funds and aggregated remaining fund" and "Basis for qualified opinion on governmental activities" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Loíza, Puerto Rico**, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified opinions on general fund and aggregate remaining fund information

In our opinion, except for the possible of the matter discussed in "Basis for qualified opinion on governmental activities, general funds and aggregated remaining fund" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of general fund, and the aggregate remaining fund information of the **Municipality of Loíza, Puerto Rico** as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

Unqualified opinion

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respect, the financial position of the debt services funds, the proprietary fund and business type activities of the Municipality of Loíza, Puerto Rico, as of June 30, 2015, and the change in financial statements thereof for the year then ended in accordance with accounting principle generally accepted in the United States of America.

Emphasis-of-Matter

Newly Adopted Standards

As discussed in Note 1 to the financial statements, the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and Amendment of GASB Statement No. 68*, during fiscal year 2015. Our opinions are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 8 to the financial statements, the 2014 financial statements have been restated for the implementation of GASB Statements No. 68 and 71. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and employees' retirement system information on pages 5 to 11, 50 to 52 and 53 to 54, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the require supplementary information related to employees' retirement system information applicable to Municipality, in accordance with auditing standard generally accepted in the United State of America. We do not express an opinion or provide any assurance in the information.

INDEPENDENT AUDITOR'S REPORT (CONTINUED):

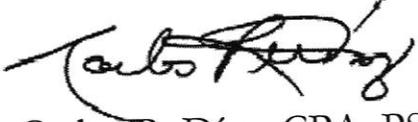
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Loíza, Puerto Rico's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the matter discussed in "Basis for qualified opinion on the governmental activities, general fund and aggregated remaining funds" paragraph, 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*, we have also issued our report dated June 23, 2016, on our consideration of the **Municipality of Loíza** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Municipality of Loíza** internal control over financial reporting and compliance.

June 23, 2016
Aguas Buenas, Puerto Rico


Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

The stamp No. **E210259** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

Management of the *Municipality of Loiza* of the Commonwealth of Puerto Rico (the "**Municipality**") provides this *Management's Discussion and Analysis* of the Municipality's basic financial statements as an overview and analysis of the financial activities of the Municipality for the fiscal year ended **June 30, 2015**. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality's in the Governmental Activities has reported assets and net assets (deficit) amounting to **\$27,617,944** and **\$(22,199,466)** respectively, in the accompanying statement of net assets, of which the most significant assets are capital assets amounting to **\$25,177,936 (91 percent of total Municipality's assets)**.
- The Municipality in the same activities has reported total liabilities amounting to **\$50,610,097** in the accompanying statement of net assets, of which the most significant liabilities are bonds and notes **\$(9,593,200)** and net pension liability **\$(33,187,461) (85 percent of total liabilities)**.
- The Municipality has reported total revenues amounting to **\$11,995,409** in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances-Gubernamental Funds, for the Fiscal Year Ended **June 30, 2015**. The most significant revenues amounting in this statement are grants and entitlements and taxes were amounting to **\$7,071,157 (59 percent of total revenues)** and **\$4,046,137 (34 percent of total revenues)**, respectively.
- The Municipality has reported a change in net position of revenues over expenditures amounting to **\$(3,751,477)** in the accompanying statement of activities.
- The Municipality's governmental funds reported combined ending fund balances (deficit) of **\$(2,362,770)**.
- The Municipality has reported a deficit for the general fund amounting to **\$(7,986,389)**.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Municipality's financial statements include three components: **(1)** the government-wide financial statements, **(2)** the fund financial statements, and **(3)** the notes to the financial statements (**collectively known as the basic financial statements**).

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended **June 30, 2015** even if cash involved have not been received or paid. The government-wide financial statements include: **(1)** the statements of net assets and **(2)** the statement of activities.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015

Government-Wide Financial Statements (Continued)

Statement of Net Assets

The statement of net *assets* presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net assets" (**equity**). Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Municipality is either improving or deteriorating.

Statement of Activities

The statement of activities presents information showing how the Municipality's net assets changed during the fiscal year ended **June 30, 2015**. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (**such as uncollected taxes and earned but unused vacation leave**). This statement also presents a comparison between direct expenses and program revenues for each function of the Municipality.

Both of the abovementioned financial statements present all the governmental activities of the Municipality, which consist mostly by taxes and intergovernmental revenues (**such as federal grants**). Most services provided by the Municipality fall into this category, including culture and education, general government, health and sanitation, public safety, public housing and welfare, etc.

Fund Financial Statements

The Municipality's fund financial statements, which consist of: **(1)** the balance sheet – governmental funds and **(2)** the statement of revenues, expenditures and changes in fund balances – governmental funds. These financial statements report the financial position and results of operations of the Municipality's governmental funds.

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

The fund financial statements focus on: **(1)** individual parts of the Municipality's government and **(2)** reporting the Municipality's operations in more detail than the government-wide financial statements. For financial reporting purposes, the Municipality classifies its funds within the following fund categories: **(1)** general fund, **(2)** debt service fund, **(3)** permanent improvement fund and **(4)** capital projects funds (collectively known as the "governmental funds").

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015**

Fund Financial Statements (Continued)

Governmental funds are used to account for all of the services provided by the Municipality. Governmental funds are used to account for essentially the same functions reported as governmental activities in the governmental-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year **(June 30, 2015)**. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the Municipality's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Municipality, that is, evaluating the Municipality's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the fund information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Municipality's near-term financial decisions.

For financial reporting purposes the Municipality has four major funds: **(1)** the general fund **(2)** the debt service fund **(3)** permanent improvement fund.

Notes to the Basic Financial Statements

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

Government-wide Financial Statements Summary

As noted earlier, net assets may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, liabilities exceeded assets by **\$22,199,466 at June 30, 2015**.

As previously discussed, by far the largest portion of the Municipality's net assets reflect its investment in capital assets **(e.g., land, buildings, machinery, equipment and all other property)**, less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Otherwise, Municipality's Basic Financial Statement, not present increase in capital actives and acrued depreciation expenses, because al the time prepare the financial statement, Municipal Administrative was reevaluating actives files to stablish of capitalization. The following is a condensed presentation of the Municipality's financial position and results of operations, as reported in the government-wide financial statements including its component unit, Brisas de Loiza Proyect:

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015**

Government-wide Financial Statements Summary (Continued)

Condensed Statement of Net Assets:

| | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|---|-----------------------|-----------------------|
| Current assets | \$ 5,394,643 | \$ 2,440,008 |
| Capital assets | <u>27,033,225</u> | <u>25,177,936</u> |
| Total assets | <u>32,427,868</u> | <u>27,617,944</u> |
| Deferred outflows of resources | 727,917 | 1,513,387 |
| Current liabilities | 3,048,035 | 4,564,345 |
| Non-current liabilities | <u>46,791,376</u> | <u>46,045,752</u> |
| Total liabilities | <u>49,839,411</u> | <u>50,610,097</u> |
| Deferred inflows of resources: | | |
| Deferred property taxes | 2,107,837 | 455,120 |
| Deferred Municipal tax | 363,679 | 265,580 |
| Net assets/(liabilities): | | |
| Invested in capital assets, net of related debt | 21,895,937 | 20,933,521 |
| Restricted | 9,230,111 | 9,868,034 |
| Unrestricted, as restated | <u>(50,281,190)</u> | <u>(53,001,021)</u> |
| Total net assets | <u>\$(19,155,142)</u> | <u>\$(22,199,466)</u> |

An additional portion of the Municipality's net assets (**1 percent**) represents resources that are subject to restrictions on how they may be used. At the end of the current fiscal year, the Municipality has reported positive balances in two categories of net assets.

The 2014 net assets has been restated to account for the implementation of GASB 68.

Condensed Statement of Activities:

| | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|------------------------------------|----------------------|----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 419,167 | \$ 413,403 |
| Operating grants and contributions | 240,126 | 344,450 |
| Capital grants and contributions | <u>814,802</u> | <u>442,580</u> |
| | 1,474,095 | 1,200,433 |
| General revenues: | | |
| Property taxes | 3,046,403 | 2,819,568 |
| Municipal license taxes | 255,483 | 279,074 |
| Sales and use taxes | 935,526 | 883,877 |
| Construction excise tax | 570,344 | 63,618 |
| Grants and entitlements | 7,533,765 | 7,071,157 |
| Rent | 47,395 | 28,585 |
| Licenses and permit | 1,375 | 1,150 |
| Interest | 94,930 | 37,951 |
| Other | <u>1,184,794</u> | <u>810,429</u> |
| Total revenues | <u>\$15,144,110</u> | <u>\$11,995,409</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015**

Government-wide Financial Statements Summary (Continued)

| | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|---|-----------------------------------|-----------------------------------|
| Expenses: | | |
| General administration | \$ (7,445,079) | \$ (8,538,925) |
| Public safety | (1,099,650) | (1,560,263) |
| Education, culture and recreational | (558,245) | (676,452) |
| Community development | (849,058) | (935,607) |
| Public works and sanitation | (3,114,630) | (2,341,621) |
| Health and welfare | (1,696,198) | (1,994,549) |
| Interest | <u>(539,306)</u> | <u>(441,092)</u> |
| Business type-activities: | | |
| Housing | (381,141) | (385,809) |
| Interest | <u>(68,544)</u> | <u>(73,001)</u> |
| Total expenses | <u>(15,751,851)</u> | <u>(16,947,319)</u> |
| Change in net assets | (607,741) | (3,751,477) |
| Net assets – at beginning of year, as restated | <u>(18,547,401)</u> | <u>(19,155,142)</u> |
| Net assets – at end of year, as restated | <u><u>\$ (19,155,142)</u></u> | <u><u>\$ (22,906,619)</u></u> |

Fund Financial Statements Summary

As discussed earlier, the Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the Municipality's *governmental funds* is to provide information on near-term inflows, outflows, and balance of *spendable resources*. Such information is useful in assessing the Municipality's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of fiscal year. The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet – Governmental funds:

| | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|-------------------------------------|----------------------|----------------------|
| Total Assets – Major Funds | \$ 4,494,145 | \$ 2,147,746 |
| Total Assets – Nonmajor Funds | <u>3,869,079</u> | <u>3,656,429</u> |
| Total assets | <u>8,363,224</u> | <u>5,804,175</u> |
| Total Liabilities – Major Funds | 5,849,990 | 7,591,947 |
| Total Liabilities – Nonmajor Funds | <u>185,464</u> | <u>119,878</u> |
| Total liabilities | <u>6,035,454</u> | <u>7,711,825</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015**

Fund Financial Statements Summary (Continued)

| | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|---|----------------------|-----------------------|
| Deferred inflows of resources: | | |
| Deferred property tax | \$ 2,107,837 | |
| Deferred municipal taxes | 363,679 | \$ 455,120 |
| | | |
| Fund Balances – Major Funds | 2,199,707 | 2,087,068 |
| Fund Balances – Nonmajor Funds | 3,683,615 | 3,536,551 |
| Unassigned | <u>(6,027,068)</u> | <u>(7,986,389)</u> |
| | | |
| Total Fund Balance | <u>(143,746)</u> | <u>(2,362,770)</u> |
| | | |
| <u>Condensed Statement of Operations – Governmental funds:</u> | | |
| | | |
| Total Revenues – Major Funds | 13,667,392 | 11,992,631 |
| Total Revenues – Nonmajor Funds | <u>1,054,928</u> | <u>787,030</u> |
| | | |
| Total revenues | <u>14,722,320</u> | <u>12,779,661</u> |
| | | |
| Total expenditures – Major Funds | 15,115,507 | 14,078,911 |
| Total expenditures – Nonmajor Funds | <u>991,561</u> | <u>919,776</u> |
| | | |
| Total expenditures | <u>16,107,068</u> | <u>14,998,687</u> |
| | | |
| Revenues Over (under) Expenses – Major | (1,448,115) | (2,071,961) |
| Revenues Over (under) Expenses – Nonmajor | 63,367 | (147,065) |
| | | |
| Fund Balance at beginning of year | <u>1,241,002</u> | <u>(143,744)</u> |
| | | |
| Fund Balance at end of year | <u>\$ (143,746)</u> | <u>\$ (2,362,770)</u> |

Capital Assets and Debt Administration

a) Capital Assets

The Municipality has invested **\$40,078,302** in capital assets used in governmental activities, which have an accumulated depreciation and amortization of **\$14,900,366** at June, 30, 2015. The net capital assets increased during the current fiscal year due to the current fiscal year capital additions **\$165,188**, which were partially offset by the depreciation and amortization expense.

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOIZA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUE)
FOR THE YEAR ENDED JUNE 30, 2015**

Capital Assets and Debt Administration (Continued)

b) Debt Administration

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

At June 30, 2014, the Municipality's total bonded debt amounted to **\$10,300,063**, consisting of bonds **\$(9,593,200)** and notes **\$(706,863)** payables. Such debt is backed by the full faith and credit of the Municipality.

Financial Contact

The Municipality's financial statements are designed to present users (**citizens, taxpayers, customers, investors and creditors**) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability. If you have questions about the report or need additional financial information, contact the Municipality's Chief Financial Officer on the 2nd. floor of the **Loiza City Hall, Loiza, Puerto Rico.**

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

| | PRIMARY GOVERNMENT | | |
|---|------------------------------------|--------------------------------------|-----------------------|
| | GOVERNMENTAL ACTIVITIES | BUSINESS -TYPE ACTIVITIES | |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 102,953 | \$ 292,728 | \$ 395,681 |
| Cash with fiscal agent | 2,216,873 | | 2,216,873 |
| Accounts receivable, sales tax | 21,408 | | 21,408 |
| Due from other governmental agencies | 98,774 | | 98,774 |
| Other assets | | 26,626 | 26,626 |
| Capital assets, net | <u>25,177,936</u> | <u>791,056</u> | <u>25,968,992</u> |
| Total Assets | <u>27,617,944</u> | <u>1,110,410</u> | <u>28,728,354</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Contribution to employees' retirement plan | <u>1,513,387</u> | _____ | <u>1,513,387</u> |
| LIABILITIES: | | | |
| Accounts payable and accrued expenses | 3,114,409 | 27,564 | 3,141,973 |
| Unearned income | 32,055 | | 32,055 |
| Due to other governmental agencies | 1,417,881 | | 1,417,881 |
| Long-term debt: | | | |
| Due within one year | 3,478,543 | 45,956 | 3,524,499 |
| Due in more than one year | <u>42,567,209</u> | <u>1,744,043</u> | <u>44,311,252</u> |
| Total liabilities | <u>50,610,097</u> | <u>1,817,563</u> | <u>52,427,660</u> |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Deferred municipal tax | 455,120 | | 455,120 |
| Unamortized investment in employees' retirement system | <u>265,580</u> | _____ | <u>265,580</u> |
| | <u>720,700</u> | _____ | <u>720,700</u> |
| NET POSITION: | | | |
| Net investment in capital assets | 20,933,521 | (998,943) | 19,934,578 |
| Restricted for: | | | |
| Debt service | 2,087,068 | | 2,087,068 |
| Replacements and others | 3,536,551 | | 3,536,551 |
| Capital project and others | 4,244,415 | | 4,244,415 |
| Unrestricted | <u>(53,001,021)</u> | <u>291,790</u> | <u>(52,709,231)</u> |
| Total Net Position (deficiency) | <u>\$(22,199,466)</u> | <u>\$(707,153)</u> | <u>\$(22,906,619)</u> |

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

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

| <u>FUNCTIONS AND PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | | <u>NET (EXPENSE)/ REVENUE</u> |
|---|------------------------|---|--|--|--|
| | | <u>CHARGE FOR SERVICES</u> | <u>OPERATING GRANTS AND CONTRIBUTIONS</u> | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> | |
| Governmental activities: | | | | | |
| General administration | \$ (8,538,925) | | \$344,450 | | \$ (8,194,475) |
| Public safety | (1,560,263) | | | | (1,560,263) |
| Education, culture and recreational | (676,452) | | | | (676,452) |
| Public relation, tourism and citizen affairs | (935,607) | | | | (935,607) |
| Public works and sanitation | (2,341,621) | | | \$442,580 | (1,899,041) |
| Health and welfare | (1,994,549) | | | | (1,994,549) |
| Interest | <u>(441,092)</u> | <u> </u> | <u> </u> | <u> </u> | <u>(441,092)</u> |
| Total governmental activities | <u>(16,488,509)</u> | <u> </u> | <u>344,450</u> | <u>442,580</u> | <u>(15,701,479)</u> |
| Business type-activities: | | | | | |
| Housing | (385,809) | \$413,403 | | | 27,594 |
| Interest | <u>(73,001)</u> | <u> </u> | <u> </u> | <u> </u> | <u>(73,001)</u> |
| | <u>(458,810)</u> | <u>413,403</u> | <u> </u> | <u> </u> | <u>(45,407)</u> |
| Total | <u>\$(16,947,319)</u> | <u>\$413,403</u> | <u>\$344,450</u> | <u>\$442,580</u> | <u>\$(15,746,886)</u> |

(Continue)

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>GOVERNMENTAL ACTIVITIES</u> | <u>BUSINESS-TYPE ACTIVITIES</u> | <u>TOTAL</u> |
|--|------------------------------------|-------------------------------------|---------------------------|
| Net (expense)/revenue | <u>\$(15,701,479)</u> | <u>\$ (45,407)</u> | <u>\$(15,746,886)</u> |
| General revenue: | | | |
| Taxes: | | | |
| Property taxes | 2,819,568 | | 2,819,568 |
| Municipal tax | 279,074 | | 279,074 |
| Sales tax | 883,877 | | 883,877 |
| Construction excise tax | 63,618 | | 63,618 |
| Grants and entitlements | 7,071,157 | | 7,071,157 |
| Rent | 28,585 | | 28,585 |
| Licenses and permit | 1,150 | | 1,150 |
| Interest | 35,173 | 2,778 | 37,951 |
| Other | <u>810,429</u> | <u> </u> | <u>810,429</u> |
| Total general revenues | <u>11,992,631</u> | <u>2,778</u> | <u>11,995,409</u> |
| Changes in net position | (3,708,848) | (42,629) | (3,751,477) |
| Net position at beginning of year, as restated | <u>(18,490,618)</u> | <u>(664,524)</u> | <u>(19,155,142)</u> |
| Net position at end of year | <u>\$(22,199,466)</u> | <u>\$(707,153)</u> | <u>\$(22,906,619)</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015

| | MAJOR FUNDS | | | |
|---|-------------------------|----------------------------------|---|---|
| | GENERAL FUND | DEBT SERVICE FUND | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| ASSETS | | | | |
| Cash: | | | | |
| Cash in bank | \$ 30,776 | | \$ 72,177 | \$ 102,953 |
| Cash with fiscal agent | | \$2,032,472 | 184,401 | 2,216,873 |
| Receivables: | | | | |
| Due from other governmental agencies | 3,461 | 54,596 | 40,717 | 98,774 |
| Due from other funds | 5,033 | | 3,359,134 | 3,364,167 |
| Sales tax | <u>21,408</u> | | | <u>21,408</u> |
| Total assets | <u>\$ 60,678</u> | <u>\$2,087,068</u> | <u>\$3,656,429</u> | <u>\$ 5,804,175</u> |
| LIABILITIES AND FUND BALANCE | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 2,814,932 | | \$ 82,790 | \$ 2,897,722 |
| Advances from other governmental agencies | | | 32,055 | 32,055 |
| Due to other fund | 3,359,134 | | 5,033 | 3,364,167 |
| Due to other governmental agencies | <u>1,417,881</u> | | | <u>1,417,881</u> |
| Total liabilities | <u>7,591,947</u> | | <u>119,878</u> | <u>7,711,825</u> |
| Deferred inflows of resources: | | | | |
| Deferred municipal taxes | <u>455,120</u> | | | <u>455,120</u> |
| | <u>455,120</u> | | | <u>455,120</u> |
| Fund balance (deficit) | | | | |
| Restricted for: | | | | |
| Debt service | | 2,087,068 | | 2,087,068 |
| Other purposes | | | 3,536,551 | 3,536,551 |
| Unassigned | <u>(7,986,389)</u> | | | <u>(7,986,389)</u> |
| Total fund balance (deficit) | <u>(7,986,389)</u> | <u>2,087,068</u> | <u>3,536,551</u> | <u>(2,362,770)</u> |
| Total liabilities and fund balance | <u>\$ 60,678</u> | <u>\$2,087,068</u> | <u>\$3,656,429</u> | <u>\$ 5,804,175</u> |

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

Fund balances in governmental funds \$ (2,362,770)

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 governmental funds 25,177,936

Deferred outflows of resources in governmental activities are not recorded in the funds in the current period 1,513,387

Deferred inflows of resources in governmental activities corresponded to future period and therefore are not reported in the funds (265,580)

Long-term liabilities and accrual expenses are not due and payable in the current period and therefore are not reported in the governmental funds:

| | |
|-------------------------|---------------------|
| Bonds and notes payable | (9,593,200) |
| Compensated absences | (2,052,324) |
| Claims and judgments | (505,904) |
| Accrued interest | (216,687) |
| Notes payable CRIM | (706,863) |
| Net pension liability | <u>(33,187,461)</u> |

Net position of governmental activities \$ (22,199,466)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (DEFICIT)-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | MAJOR FUNDS | | | |
|--|-----------------------------|---------------------------|---------------------------|-----------------------------|
| | GENERAL | DEBT | OTHER | TOTAL |
| | FUND | SERVICE | GOVERNMENTAL | GOVERNMENTAL |
| | FUND | FUND | FUNDS | FUNDS |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 1,906,335 | \$ 913,233 | | \$ 2,819,568 |
| Municipal taxes | 279,074 | | | 279,074 |
| Sale tax | 481,206 | 402,671 | | 883,877 |
| Construction excise tax | 63,618 | | | 63,618 |
| Licenses and permits | 1,150 | | | 1,150 |
| Interest | 33,687 | 1,486 | | 35,173 |
| Rent | 28,585 | | | 28,585 |
| Grants and entitlements | 7,071,157 | | \$ 787,030 | 7,858,187 |
| Other | <u>810,429</u> | | | <u>810,429</u> |
| Total Revenues | <u>10,675,241</u> | <u>1,317,390</u> | <u>787,030</u> | <u>12,779,661</u> |
| Expenditures: | | | | |
| General administration | 6,652,352 | | 896,310 | 7,548,662 |
| Public safety | 1,075,537 | | | 1,075,537 |
| Education, culture and recreation | 466,093 | | | 466,093 |
| Public works | 2,035,605 | | | 2,035,605 |
| Community development | 646,209 | | | 646,209 |
| Health and welfare | 1,712,750 | | 23,466 | 1,736,216 |
| Debt service: | | | | |
| Principal | | 1,017,000 | | 1,017,000 |
| Interest | | <u>473,365</u> | | <u>473,365</u> |
| Total expenditures | <u>12,588,546</u> | <u>1,490,365</u> | <u>919,776</u> | <u>14,998,687</u> |
| Excess of revenue over (under) expenditures | (1,913,305) | (172,975) | (132,746) | (2,219,026) |
| Other financing sources (uses): | | | | |
| Operating transfer in | 15,435 | 61,534 | | 76,969 |
| Operating transfer out | <u>(61,451)</u> | <u>(1,199)</u> | <u>(14,319)</u> | <u>(76,969)</u> |
| Total other financing sources | <u>(46,016)</u> | <u>60,335</u> | <u>(14,319)</u> | |
| Excess of revenues and other financing source over (under) expenditures and other financing sources | (1,959,321) | (112,640) | (147,065) | (2,219,026) |
| Fund balance deficit at beginning of year | <u>(6,027,068)</u> | <u>2,199,708</u> | <u>3,683,616</u> | <u>(143,744)</u> |
| Fund balance deficit at end of year | <u><u>\$(7,986,389)</u></u> | <u><u>\$2,087,068</u></u> | <u><u>\$3,536,551</u></u> | <u><u>\$(2,362,770)</u></u> |

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

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

| | |
|---|-----------------------------|
| Net change in fund balances – total governmental funds | \$(2,219,026) |
| <i>Amounts reported for Governmental Activities in the Statement of Activities are different because:</i> | |
| Depreciation expense on capital assets is reported in the statement of activities, but do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in the governmental funds. | (955,522) |
| Governmental payments of long-term debts as expenditures, whereas the payment reduces the long-term obligations in the statement of activities: Notes and bonds | 1,038,937 |
| Increase (decrease) in accruals which do not require the use of current financial resources: | |
| Interest | 32,273 |
| Accrued vacations | (82,870) |
| Net pension liability | <u>(1,522,640)</u> |
| <i>Changes in Net Position of Governmental Activities</i> | <u>\$(3,708,848)</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
PROPRIETARY FUND STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

PROPRIETARY FUND
BRISAS DE LOÍZA PROJECT

Current Assets:

| | |
|----------------------------|------------------------|
| Cash | \$ 67,250 |
| Other assets | <u>26,626</u> |
| | <u>93,876</u> |
| Property and Equipment | 791,056 |
| Restricted deposits | <u>225,478</u> |
| | <u>\$1,110,410</u> |

LIABILITIES AND NET POSITION

Liabilities:

Current liabilities:

| | |
|---------------------------------------|---------------|
| Current maturities of mortgage note | \$ 45,956 |
| Accounts payable and accrued expenses | <u>14,757</u> |
| | <u>60,713</u> |

Long-term debt liabilities:

| | |
|--|------------------|
| Mortgage note, net of current maturities | 1,744,043 |
| Tenants deposits held in trust | <u>12,807</u> |
| | <u>1,756,850</u> |

| | |
|---------------------------|------------------|
| Net position (deficiency) | <u>(707,153)</u> |
|---------------------------|------------------|

\$1,110,410

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF ACTIVITIES PROPERTY FUND
YEAR ENDED JUNE 30, 2015

| | <u>BRISAS DE LOÍZA PROJECT</u> |
|---|--------------------------------|
| Revenues: | |
| Rent | \$ 413,403 |
| Financial | <u>2,778</u> |
| Total revenues | <u>416,181</u> |
| Expenses: | |
| Administrative | 143,147 |
| Utilities | 13,457 |
| Operating and maintenance | 87,189 |
| Taxes and insurance | 22,351 |
| Depreciation | 119,665 |
| Interest | <u>73,001</u> |
| Total Expenses | <u>458,810</u> |
| Change in net position | (42,629) |
| Net position (deficiency), beginning of year | <u>(664,524)</u> |
| Net position (deficiency), end of year | <u><u>\$(707,153)</u></u> |

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
STATEMENT OF CASH FLOWS PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

**PROPERTY FUND
BRISAS DE LOÍZA PROJECT**

Cash flows from operating activities:

| | |
|---|----------------|
| Change in net position | \$ (42,629) |
| Adjustments to reconcile change in net position to net cash provided by operating activities: | |
| Depreciation | 119,665 |
| Bad debt expense | 4,784 |
| Increase or decrease in: | |
| Other assets | (3,690) |
| Accounts payable and accrued expense | <u>(2,276)</u> |
| Net cash provided by operating activities | <u>75,854</u> |

Cash flow from investing activities:

| | |
|--|-----------------|
| Interest deposited on replacement reserve | (1,396) |
| Increase in other reserve | (119) |
| Deposits to replacement reserve | (24,000) |
| Purchase of property and equipment | <u>(10,954)</u> |
| Net cash used by investing activities | <u>(36,469)</u> |

Cash flows from financing activities:

| | |
|--|------------------|
| Mortgage principal payments | (42,089) |
| Net cash used by financing activities | <u>(42,089)</u> |
| Net decrease in cash | (2,704) |
| Cash, beginning of the year | <u>69,954</u> |
| Cash, end of the year | <u>\$ 67,250</u> |

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

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

1. ORGANIZATION

The Municipality of Loíza (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with perpetual succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has thirteen members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant policies of the Municipality are described below.

Reporting entity

A reporting entity consists of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Loíza, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by Municipality's Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

Government wide and fund financial statements

Basic financial statements include both governments-wide and fund financial statements.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide statements

The government-wide financial statements (consists of the statement of net position and the statement of activities) these statements report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Fund financial statements

The fund financial statements segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

A) General Fund

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B) Debit service fund

The fund accounts for resources accumulated and payments made for principal and interest on long term general obligation debt of governmental funds.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statement of Net Position and the Statement of Activities, both government and business type activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement presentation (continued)

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund nets, and statements of cash flows for the proprietary fund which include a low income housing project know as Brisas De Loíza Project.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of net assets. The statement of revenues, expenses and change in fund net position present increases (revenues) and decrease (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operating of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Cash, cash equivalents, cash with fiscal agent and investments

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

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 amount in excess of federal depository insurance. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, cash equivalents, cash with fiscal agent and investments (Continued)

The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

Interfund receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfund receivables and payables between funds within the governmental activities are eliminated in the statement of net position.

Capital assets

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

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

| | |
|-----------------------------------|---------------|
| Infrastructure | 25 - 50 years |
| Building and building improvement | 20 - 50 years |
| Furniture and fixtures | 5 - 10 years |
| Vehicles and equipment | 3 - 20 years |

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Capital Assets

The Municipality periodically evaluates long-term assets for impairment in accordance with GASB Statement No. 34, (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) and GASB No.42, (*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries Governments*) are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

Fund balance

The fund balance amounts are reported as nonspendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **Nonspendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund balance (Continued)

- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by and official or body to which the governing body delegates authority in conformity with the bylaws of the Municipality. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.
- ❖ **Unassigned** – Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

Risk financing

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance policies deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2015 amounted to approximately \$131,615. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$285,163 for workers compensation insurance covering all municipal employees.

Compensated absences

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations 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 up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the Statement of Net Position.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

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

The Municipality adopted the statement no. 68 of the *Governmental Accounting Standard Board Accounting and Financial Reporting for Pension (GASB 68)* for the year ended June 30, 2015 which requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer's proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate share should be determined using the employer's proportion of the employee contribution.

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

- ❖ GASB Statement No. 69, *Government Combination and Disposal of Government Operations*. This statement is effective for periods beginning after December 15, 2014.
- ❖ Statement No. 72, *Fair Value Measurement and Application* - Effective Date: The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015.
- ❖ Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* - Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployee contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.
- ❖ Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016.
- ❖ Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.
- ❖ GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- ❖ *GASB Statement No. 77, Tax Abatement Disclosures* - Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- ❖ *GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- ❖ *GASB Statement No. 79, Certain External Investment Pools and Pool Participants* - Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The Municipality management has not determined the impact in the Municipality financial statements the future adoption of these GASB Statements.

Use of estimates

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

Subsequent Events

Management has evaluated subsequent events through June 23, 2016, the date the financial statements were evaluated to be issued.

3. PROPERTY TAX

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated value as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

3. PROPERTY TAX (Continued)

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the Municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exception from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2015 is 8.78% for real property and 6.78% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.75% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth contributes an annual tax rate of 0.2% of the property tax collected and the remaining rate is paid by the taxpayer.

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances versus actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15 1999. As of June 30, 2015, the amount due to CRIM amounting to \$706,863 is presented as other long-term debt (see Note 10).

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

4. VOLUME OF BUSINESS TAX

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2015, \$455,120 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue, and is presented as a liability in the accompanying financial statements.

5. SALE TAX

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved a city tax contribution (SUT), effective October 3, 2006 to 1.5% over all transactions of sales of goods and services made on Loíza boundaries. The retailers are required to file monthly sales tax returns by 10th days following the month in which the tax are collected.

Pursuant to the provision at the Act 72-2015 and effective July 1, 2015, the citizenship contribution was uniformly established in 1.5%, for all the Municipality of Puerto Rico, of which 1% is collected by the Municipality and the remaining 0.5% is to be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of the amount collected by the Treasury Department is submitted to Municipal Finance Corporation (COFIM, by its Spanish acronym), a redemption fund for financing capital projects to the municipalities.

COFIM is a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank. COFIM is authorized to issue and use other financing mechanisms to pay or refinance, directly or indirectly, in whole or in part, the debts of the municipalities of the Commonwealth payable or backed by the municipal sales and use tax. COFIM receives, from the first revenues of the municipal sales and use tax collected, the greater of: (i) an amount computed by applying a 0.3% fixed tax rate to the total revenues collected, or (ii) a fixed amount that increases annually, known as the Annual Fixed Income. These revenues, which are deposited in COFIM's Redemption Fund, are used to pay and secure the debt issued by COFIM. As an independent corporation, COFIM has the same powers, rights and faculties as the GDB under its Charter.

6. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. Also, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the General fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the Other Governmental Funds.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

7. COMMITMENTS AND CONTINGENCIES

At June 30, 2015, the Municipality was defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations would not be material in relation to the financial position of the Municipality.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

8. RESTRICTED DEPOSIT

Restricted cash in the business-type activities consists of:

| | |
|---------------------|------------------|
| Replacement reserve | \$193,899 |
| Security deposits | 12,807 |
| Residual receipts | <u>18,772</u> |
| | <u>\$225,478</u> |

A. Replacement Reserve

The project is required under the Project Rental Assistance Contract (PRAC) and federal regulations, to set aside amounts to aid in funding extraordinary maintenance and repair and replacement of capital items in accordance with applicable regulations. Funds may be drawn from the reserve and used only in accordance with HUD guidelines and with approval of, or as directed by, HUD.

B. Security Deposits

The project is required, under federal regulations, to set aside, at the time of the initial execution of the lease, the tenant's security deposit and its accumulated interest. The project must refund to the tenant, the full amount of the tenant's security deposit, provided the tenant does not owe any amount under the lease. The Project may use the tenant's security deposit balance as a reimbursement for any unpaid amounts the tenant owes under the lease.

C. Residual Receipts

The Project is required, under federal regulations and PRAC, to set aside the surplus project funds in an interest-bearing residual receipts account when the project funds are more than needed for the operation of the project, to pay operating expenses, and to make the required deposits to the replacement reserve. Withdrawals from this account will be made only with the approval of HUD and for project purposes, including the reduction of project rental assistance payments.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

9. CAPITAL ASSETS

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

| Primary Government | Balance June 30, 2014 | Increases | Decreases | Balance June 30, 2015 |
|--|----------------------------------|----------------------|------------------|----------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,687,516 | _____ | _____ | \$ 1,687,516 |
| Capital assets being depreciated: | | | | |
| Infrastructure | 22,989,396 | \$ 147,500 | | 23,136,896 |
| Buildings, park and courts | 10,979,148 | | | 10,979,148 |
| Furniture and fixtures, automobiles and equipment | <u>4,257,054</u> | <u>17,688</u> | _____ | <u>4,274,742</u> |
| Total capital assets being depreciated | <u>38,225,598</u> | <u>165,188</u> | _____ | <u>38,390,786</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (7,468,321) | (606,936) | | (8,075,257) |
| Buildings, parks and courts | (4,075,666) | (244,302) | | (4,319,968) |
| Furniture and fixtures, automobiles and equipment | <u>(2,235,669)</u> | <u>(269,472)</u> | _____ | <u>(2,505,141)</u> |
| | <u>(13,779,656)</u> | <u>(1,120,710)</u> | _____ | <u>(14,900,366)</u> |
| Total depreciable capital assets, net | <u>24,445,942</u> | <u>(955,522)</u> | _____ | <u>23,490,420</u> |
| Governmental activities capital assets net | <u>26,133,458</u> | <u>(955,522)</u> | _____ | <u>25,177,936</u> |
| Business-type activities: | | | | |
| Capital assets net being depreciated: | | | | |
| Land | <u>109,735</u> | _____ | _____ | <u>109,735</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 3,165,421 | 847 | | 3,166,268 |
| Equipment | <u>334,683</u> | <u>10,107</u> | _____ | <u>344,790</u> |
| | 3,500,104 | 10,954 | | 3,511,058 |
| Less accumulated depreciation: | | | | |
| Building and improvements and equipment | <u>(2,710,072)</u> | <u>(119,665)</u> | _____ | <u>(2,829,737)</u> |
| Total depreciable capital assets, net | <u>790,032</u> | <u>(108,711)</u> | _____ | <u>681,321</u> |
| Business activities capital assets, net | <u>899,767</u> | <u>(108,711)</u> | _____ | <u>791,056</u> |
| | <u>\$27,033,225</u> | <u>\$(1,064,233)</u> | \$ _____ | <u>\$25,968,992</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

9. CAPITAL ASSETS (CONTINUED)

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

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--|------------------------------------|-------------------------------------|
| General administration | \$ 348,781 | |
| Public safety | 57,877 | |
| Public works | 518,783 | |
| Education, culture and recreation | 49,736 | |
| Health, sanitation and welfare | 106,699 | |
| Public relation, tourism and citizen affairs | 38,834 | |
| Housing | <u> </u> | <u>\$119,665</u> |
| Total depreciation expense | <u>\$1,120,710</u> | <u>\$119,665</u> |

10. LONG-TERM DEBTS

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

| Primary Government Governmental activities: | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|-----------------------------|-----------------------------|---------------------------|--------------------------------|
| Bonds and notes | \$10,610,200 | | \$(1,017,000) | \$ 9,593,200 | \$ 897,000 |
| Notes Payable CRIM - Law 42 | 728,800 | | (21,937) | 706,863 | 23,315 |
| Compensated absences | 1,969,454 | \$ 82,870 | | 2,052,324 | 2,052,324 |
| Legal settlement | 505,904 | | | 505,904 | 505,904 |
| Net pension liability | <u>31,144,930</u> | <u>2,042,531</u> | <u> </u> | <u>33,187,461</u> | <u> </u> |
| Total | <u>44,959,288</u> | <u>2,125,401</u> | <u>(1,038,937)</u> | <u>46,045,752</u> | <u>3,478,543</u> |
| Business-type activities: | | | | | |
| Mortgage payable | <u>1,832,088</u> | <u> </u> | <u>(42,089)</u> | <u>1,789,999</u> | <u>45,956</u> |
| Total | <u>\$46,791,376</u> | <u>\$2,125,401</u> | <u>\$(1,810,026)</u> | <u>\$47,835,751</u> | <u>\$3,524,499</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

| | |
|---|-----------|
| \$451,000 series of 1992, payable in one annual installment of \$30,000 and \$32,000 until January 1, 2016, interest at 5% due annually. | \$ 32,000 |
| \$1,685,000 series of 1999, payable in annual installments of \$80,000 to \$150,000 until July 1, 2023, interest ranging from 5.88% to 8% due semiannually. | 1,015,000 |
| \$655,000 series of 2002, payable in annual installments of \$25,000 and \$55,000 until July 1, 2026, interest at 1.47% due semiannually. | 465,000 |
| \$400,000 series of 1997, payable in one annual installment of \$40,000 on July 1, 2016, interest at 6.75% due semiannually. | 40,000 |
| \$130,000 series of 2004, payable in annual installments of \$5,000 to \$10,000 until July 1, 2028, interest ranging from 5.0% to 6.5% due semiannually. | 75,000 |
| \$360,000 series of 2011, payable in an installment of \$55,000 to \$65,000 on July 1, 2017, interest at 6% due annually. | 180,000 |
| \$95,000 series of 2004, payable in annual installments of \$3,000 to \$7,000 until July 1, 2028, interest at 1.72% due semiannually. | 69,000 |
| \$455,000 series of 2004, payable in annual installments of \$15,000 to \$35,000 until July 1, 2028, interest ranging from 5.0% to 6.5% due semiannually. | 325,000 |
| \$925,000 series of 2005, payable in annual installments of \$45,000 to \$70,000 until July 1, 2024, interest at 1.72% due semiannually. | 575,000 |
| \$820,000 series of 2007, payable in annual installments of \$20,000 to \$70,000 until July 1, 2032, interest at 1.72% due annually. | 720,000 |
| \$1,155,000 series of 2008, payable in annual installments of \$135,000 to \$160,000 until July 1, 2017, interest ranging at 1.72% due semiannually. | 440,000 |

(Continue)

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

10. LONG-TERM DEBTS (CONTINUED)

Governmental activities:

Bonds and notes:

| | |
|--|------------------|
| \$135,000 series of 2008, payable in annual installments of \$10,000 to \$20,000 until July 1, 2023, interest at 1.72% due semiannually. | \$ 105,000 |
| \$935,000 series of 2010 payable in two annual installments of \$150,000 and \$165,000 until July 1, 2016 interest at 6% due semiannually. | 315,000 |
| \$1,033,000 special obligation note series of 2011, payable in month installments ranging from \$157,000 to \$181,400 until July 1, 2017, interest at 6% due semiannually. | 507,200 |
| \$820,000 series of 2011, payable in annual installments ranging from \$25,000 to \$70,000 until July 1, 2031 interest at 6% due semiannually. | 755,000 |
| \$735,000 special obligation bonds series of 2010, payable in annual installments of ranging from \$15,000 to \$65,000 until July 1, 2035 interest at 6% due semiannually. | 685,000 |
| \$1,535,000 series of 2013 payable in annual installments ranging from \$30,000 to \$125,000 until July 1, 2037 interest ranging from 6% to 7% due semiannually. | 1,490,000 |
| \$1,895,000 series of 2013 payable in annual installments ranging from \$55,000 to \$170,000 until July 1, 2032 interest ranging from 6% to 7% due semiannually. | <u>1,800,000</u> |
| Total bonds and notes | 9,593,200 |

Business type-activities:

| | |
|--|----------------------------|
| Two mortgage notes collateralized with land and building, payable in monthly installment of \$4,802 and \$1,312, including interest at an annual rate of 9% 6.87% through December 2051. | <u>1,789,999</u> |
| | <u><u>\$11,383,199</u></u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

10. LONG-TERM DEBTS (CONTINUED)

The annual debt service requirements to maturity bonds and notes payables of June 30, 2015 are as follows:

Governmental –type Activities:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Aggregate Payment</u> |
|---------------------------|--------------------|--------------------|--------------------------|
| 2016 | \$ 897,000 | \$ 436,275 | \$ 1,333,275 |
| 2017 | 886,800 | 395,039 | 1,281,839 |
| 2018 | 780,400 | 358,254 | 1,138,654 |
| 2019 | 399,000 | 333,118 | 732,118 |
| 2020 | 419,000 | 315,560 | 734,560 |
| 2021-2025 | 2,445,000 | 1,270,596 | 3,715,596 |
| 2026-2030 | 1,866,000 | 770,482 | 2,636,482 |
| 2031-2035 | 1,485,000 | 289,298 | 1,774,298 |
| 2036-2038 | <u>415,000</u> | <u>34,350</u> | <u>449,350</u> |
| | <u>\$9,593,200</u> | <u>\$4,202,972</u> | <u>\$13,796,172</u> |

Business-type activities:

Long-term debt consists of two mortgage notes are payable USDA Rural Development in monthly installments of \$4,802 and \$1,312 including interest at an annual rate of 9% and 6.857% (reduce to 1%) through December 2051. The land and building of the Project collateralized the mortgage note.

Mortgage notes payable mature as follows:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------|--------------------|------------------|
| 2016 | \$ 45,956 | \$ 27,388 |
| 2017 | 50,180 | 23,164 |
| 2018 | 54,792 | 18,552 |
| 2019 | 59,833 | 13,511 |
| 2020 | 65,337 | 8,007 |
| Thereafter | <u>1,513,901</u> | <u>515,283</u> |
| | <u>\$1,789,999</u> | <u>\$605,905</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

10. LONG-TERM DEBTS (CONTINUED)

Note payable – CRIM Law 42

Note payable of \$706,863 represents a repayment agreement with GDB and CRIM to repay the excess of property taxes advances from fiscal years up to 2001. The CRIM will retain the principal and interest from the property taxes advances. The amounts retained by CRIM will be remitted to GDB on July 1 of each year through 2032. The repayment agreement is payable in semi-annual aggregate principal installments of \$33,349 including an interest rate of 6.187%.

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|------------------|------------------|--------------------|
| 2016 | \$ 23,315 | \$ 43,382 | \$ 66,697 |
| 2017 | 24,780 | 41,917 | 66,697 |
| 2018 | 26,337 | 40,360 | 66,697 |
| 2019 | 27,992 | 38,705 | 66,697 |
| 2020 | 29,751 | 36,946 | 66,697 |
| 2021-2025 | 179,258 | 154,229 | 333,487 |
| 2026-2030 | 243,109 | 90,378 | 333,487 |
| 2031-2032 | <u>152,321</u> | <u>14,425</u> | <u>166,746</u> |
| | <u>\$706,863</u> | <u>\$460,342</u> | <u>\$1,167,205</u> |

11. INTERFUND BALANCES AND ACTIVITIES

BALANCE DUE TO / FROM OTHER FUNDS:

Balance due to / from other funds at June 30, 2015, consist of the following:

| Due from | Due to | | Total |
|-------------------------|----------------|-------------------------|--------------------|
| | General fund | Other governmental fund | |
| General fund | | \$3,359,134 | \$3,359,134 |
| Other governmental fund | <u>\$5,033</u> | _____ | <u>5,033</u> |
| Total | <u>\$5,033</u> | <u>\$3,359,134</u> | <u>\$3,364,167</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

11. INTERFUND BALANCES AND ACTIVITIES (CONTINUED)

TRANSFER TO / FROM OTHER FUNDS:

Transfer to / from other funds at June 30, 2015 consist of the following:

| Transfer out | Transfer in | | Total |
|-------------------------|-----------------|--------------------|-----------------|
| | General fund | Debt services fund | |
| General fund | | \$61,451 | \$61,451 |
| Debt service fund | \$ 1,199 | | 1,199 |
| Other governmental fund | <u>14,235</u> | <u>83</u> | <u>14,318</u> |
| Total | <u>\$15,434</u> | <u>\$61,534</u> | <u>\$76,968</u> |

12. EMPLOYEE'S RETIREMENT PLAN

A. *Plan Description* – The ERS is a cost-sharing, multi-employer defined benefit pension plan administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration (the ERS and JRS Administration). It is a trust created by Act no. 447 on May 15, 1951 (Act no. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The ERS began operations on January 1, 1952, at which date, contributions by employers and participating employees commenced. The ERS is a pension trust fund of the Commonwealth.

The ERS consists of different benefit structures pursuant to ACT No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a defined contribution hybrid program. The pension plan is sponsored by the Commonwealth, public corporations, and municipalities of Puerto Rico.

Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the ERS) are covered by the ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

On April 4, 2013, the Legislature enacted Act No. 3 which amended Act No. 447, Act no. 1 of February 16, 1990 ("Act No. 1") and Act. No. 305 of September 24, 1999 ("Act No. 305 or System 200") to establish, among other things, a defined contribution program similar to the System 2000 Program (the Defined Contribution Hybrid Program) to be administered by the ERS. Act No.3 of 2013, in conjunction with other recent funding and design changes, provided for a comprehensive pension design of the ERS. 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 system 2000 Program, and were rehired on or after July 1, 2013, became members of the Defined Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program. Act No. 3 froze all retirement benefits accrued through June 30, 2012 under the Defined Benefit Program, and thereafter, all future benefits will accrue under the defined contribution formula used for the 2000 System Program participants. Ceasing future defined benefit accruals under Act 447 and Act 1 And converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service.

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

1. Members of Act No. 447 are generally those members hired on or after April 1, 1990 (Defined Benefit Program).
2. Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Program).
3. Members of Act. No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Defined Contribution 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 System 2000 program, and were rehired on or after July 1, 2013, become members of the defined contribution hybrid program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Defined Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Defined Contribution Hybrid account.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The assets of the defined benefit program, the defined contribution program and the defined 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 Defined Benefit Program.

This summary of plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

B. Effective for fiscal year ended June 30, 2015, the Municipality implemented de provision of the GASB 68, which accounting and Financial Reporting for Pension as recommended which required that the Municipalities' governmental-wide financial Statements present the proportional net pension liability of the ERS. In addition, the GASB 68 required among other the following disclosures:

1. Employer's proportionate share amount of collective net pension liability.
2. Employer's proportionate percentage of collective net pension liability (including the basis on which it was determined) and change on its proportion since prior measurement debts.
3. Significant assumption used to measure total pension liability, including inflation, salary changes, discounts rate and mortality.
4. Measurement date of collective net pension liability and date of actuarial valuation on which the total liability is base.
5. Information about plan fiduciary net position.

Other information about the net pension liabilities should be disclosed as require supplemental information.

C. On April 4, 2014, the Governor of Puerto Rico signed into law Act No. 3 of 2014, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2014 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2014 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

3. Increase the retirement age in a range within 58 to 63 years of age depending the act under which the employee is eligible for retirement.
4. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
5. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
6. The employee contribution rate was increased from 8.275% to 10%.
7. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.
8. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
9. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
10. Survivor benefits were modified.

The effect in the financial Statement as of June 30, 2015 of the implementations of GASB 68 is as follow:

| | Current Accounting Standards (GASB 27) | New Accounting Standards (GASB 68) |
|--------------------------------|---|---------------------------------------|
| Assets | \$ 32,412,493 | \$32,412,493 |
| Deferred outflows of resources | | 1,513,387 |
| Liabilities | 19,240,199 | 52,427,660 |
| Deferred inflows of resources | 455,120 | 720,700 |
| Expenses | 14,178,839 | 15,701,479 |
| Net Position (deficit) | 7,510,394 | (22,906,619) |

The net position as prior reported was restated by \$30,147,013 due to the of implementation of GASB 68.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

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

At June 30, 2015, the Municipality reported a liability of \$33,187,461 for its proportionate share of the net pension liability. The net pension liability was 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 that date. The Municipality proportion of the net pension liability was based on a projection of the Municipality long-term share of contributions to the pension plan relative to the total projected contributions of the State and all participating school districts, actuarially determined. At June 30, 2014, the Municipality proportion was .11029 percent.

As a result of its requirement to contribute to ERS, the Municipality recognized expense of \$1,522,640 for the year ended June 30, 2015. At June 30, 2015, the Municipality reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to ERS:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 380,611 | |
| Differences between actual and expected experience | | |
| Changes in assumptions | | |
| Change in employer's proportion and differences Between the employer's contributions and the employer's proportionate share of contributions | | |
| Net differences between projected and actual earnings on plan investments | <u>1,132,776</u> | <u>\$265,580</u> |
| Total | <u>\$1,513,387</u> | <u>\$265,580</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The total pension liability in the June 30, 2014 actuarial valuations was determined using the following actuarial assumptions:

| | |
|-------------------------------|---|
| Valuation date | June 30, 2014 |
| Measurement date | June 30, 2014 |
| Amortization method | 18 years closed (beginning July 1, 2014), level dollar |
| Actuarial cost method | Entry-age normal cost method |
| Remaining amortization period | 18 years |
| Actuarial assumptions: | |
| Discount rate | 4.29% |
| Inflation | N/A |
| Payroll growth | N/A |
| Projected salary increase | None |
| Investment rate of return | 3.10% |
| Mortality | For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates from the blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. 100% of deaths while in active services are assumed to be occupational for members covered under Act No. 127. |

The net pension liability (information provided by Actuaries Valuation Report) as of June 30, 2014 is as follows:

| | June 30, 2014 | |
|--|------------------|----------------------------------|
| Net Pension liability | Total | Proportional Share (0.11029%) |
| Total pension liability | \$30,219,517,000 | \$33,328,063 |
| Fiduciary net position | 127,488,000 | 140,602 |
| Net pension liability | 30,092,029,000 | 33,187,461 |
| Fiduciary net position as a % of total pension liability | 0.42% | 0.42% |
| covered payroll | \$3,489,096,000 | \$3,848,004 |
| Net pension liability as a % covered payroll | 862.46% | 862.46% |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The following presents the Municipality proportionate share of the net pension liability using the discount rate of 4.29%, as well as what the Municipality a proportionate share of the net pension liabilities would be if it was calculate using a discount rate that is 1% lower (3.29%) or 1% higher (5.29%) than the current rate:

| | 1% Decrease 3.29% | Current Discount Rate 4.29% | 1% Increase 5.29% |
|-------------------------|-------------------------|-----------------------------------|-------------------------|
| Total Pension Liability | \$33,386,815 | \$33,328,063 | \$29,628,067 |
| Fiduciary Net Position | <u>140,602</u> | <u>140,602</u> | <u>140,602</u> |
| Net Pension Liability | <u>\$33,246,213</u> | <u>\$33,187,461</u> | <u>\$29,487,465</u> |

The discount rates used to measure total pension liability were as follow:

| | June 30, 2013 | June 30, 2014 |
|---|---------------|---------------|
| Discount rate | 4.63% | 4.29% |
| Long-term expected rate of return net of investment expense | 6.40% | 6.75% |
| Municipal bond rate* | 4.63% | 4.29% |

*Bond Buyer General Obligation 20-Bond Municipal Bond Index

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

Change in Net Pension Liabilities (information provided by Actuaries Valuation Report) for the Year ended June 30, 2015 was a follows:

| Changes in net pension liability | Total Pension liability | Increase (Decrease) | | Proportional Share |
|--|----------------------------|-----------------------------|-------------------------|---------------------|
| | | Plan Fiduciary net position | Net pension liability | |
| Balance as of June 30, 2013 | \$ 28,941,368,000 | \$ 701,361,000 | \$28,240,007,000 | \$31,144,930 |
| Changes for the year: | | | | |
| Service Cost | 419,183,000 | | 419,183,000 | 462,302 |
| Interest on total pension liability | | | | |
| Effect of plan changes | 1,321,478,000 | | 1,321,478,000 | 1,457,412 |
| Effect of economic/demographic (gains) of losses | (61,855,000) | | (61,855,000) | (68,218) |
| Effect of assumptions changes or inputs | 1,198,308,000 | | 1,198,308,000 | 1,321,572 |
| Benefit payments | (1,598,965,000) | (1,598,965,000) | | |
| Administrative Expenses | | (29,530,000) | 29,530,000 | 32,568 |
| Other Expenses | | (25,875,000) | 25,875,000 | 28,537 |
| Cost of Bonds | | (192,947,000) | 192,947,000 | 212,795 |
| Member Contributions | | 359,862,000 | (359,862,000) | (396,879) |
| Net Investment Income | | 253,558,000 | (253,558,000) | (279,640) |
| Employer Contributions | | 660,024,000 | (660,024,000) | (727,918) |
| Balance as of June 30, 2014 | <u>\$ (30,219,517,000)</u> | <u>\$ 127,488,000</u> | <u>\$30,092,029,000</u> | <u>\$33,187,461</u> |

The employer contribution to the above mentioned plans during the three year ended June 30, 2015, 2014 and 2013 was as follow. This amounts represented the required contribution for the corresponding year.

| YEAR | AMOUNT |
|------|-----------|
| 2015 | \$380,611 |
| 2014 | 355,438 |
| 2013 | 323,513 |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015

12. EMPLOYEE'S RETIREMENT PLAN (Continued)

The historical trend information regarding the accumulation of assets and pension benefit obligation in the ERS is not available. For the ten-year trend information, refer to the separately issued financial statements of the ERS as of and for the fiscal year ended June 30, 2014. The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

13. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Municipality is defendant and/or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 24, 2015, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2015.

15. RESTATEMENTS

The 2014 net assets of governmental activities has been restated for \$30,417,013 as result of implementation of GASB 68 as follows:

| | |
|---------------------------------|-----------------------|
| Net assets as previous reported | \$ 11,926,395 |
| Restatements | <u>(30,417,013)</u> |
| Net assets as restated | <u>\$(18,490,618)</u> |

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF BUDGETARY COMPARISON
FOR THE YEAR ENDED JUNE 30, 2015

| | GENERAL FUND | | | VARIANCE |
|---|---------------------|-------------------|----------------------|--------------------------|
| | ORIGINAL | AMMENDED | ACTUAL | WITH FINAL BUDGET |
| | BUDGET | BUDGET | ACTUAL | FAVORABLE |
| | | | | (UNFAVORABLE) |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 2,000,405 | \$ 2,000,405 | \$ 2,000,405 | |
| Municipal tax | 646,057 | 646,057 | 424,679 | \$ (221,378) |
| Sales tax | | | 481,189 | 481,189 |
| Construction excise tax | 655,128 | 655,128 | 63,618 | (591,510) |
| Licenses and permits | 5,000 | 5,000 | 1,150 | (3,850) |
| Interest | 84,462 | 84,462 | 34,886 | (49,576) |
| Rent | 81,440 | 81,440 | 28,585 | (52,855) |
| Grants and entitlements | 7,199,068 | 7,199,068 | 7,071,157 | (127,911) |
| Other | <u>4,000</u> | <u>4,000</u> | <u>877,014</u> | <u>873,014</u> |
| Total revenues | <u>10,675,560</u> | <u>10,675,560</u> | <u>10,982,683</u> | <u>(307,123)</u> |
| Expenditures: | | | | |
| General administration | 6,073,890 | 6,073,690 | 6,402,667 | (328,777) |
| Public safety | 1,177,865 | 1,177,865 | 1,068,445 | 109,420 |
| Education, culture and recreational | 457,468 | 457,468 | 457,745 | (277) |
| Public relation, tourism and citizens affairs | 433,964 | 433,964 | 636,669 | 35,807 |
| Public works and sanitation | 1,859,897 | 1,859,897 | 1,920,400 | (60,503) |
| Health, sanitation and welfare | <u>672,476</u> | <u>672,476</u> | <u>1,712,750</u> | <u>(1,278,786)</u> |
| Total expenditures | <u>10,675,560</u> | <u>10,675,560</u> | <u>12,198,676</u> | <u>(1,523,116)</u> |
| Excess of expenditures over revenues | <u>\$</u> | <u>\$</u> | <u>\$(1,215,993)</u> | <u>\$(1,215,993)</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2015

1. BUDGETS AND BUDGETARY ACCOUNTING

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF BUDGETARY COMPARISON
JUNE 30, 2015

2. RECONCILIATION OF GAAP TO BUDGETARY BASIS

Adjustments necessary to reconcile the revenues and expenditures of the General Fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

| | |
|--|-----------------------|
| Excess of expenditures over revenues, budgetary basis | \$ (1,215,993) |
| Adjustments to accounts payable and accrued expenses to adjust expenses from budgetary basis to modified accrual basis | (389,871) |
| Adjustments to accounts receivable to adjust revenue from budgetary basis to modified accrual | <u>(307,441)</u> |
| Excess of revenues and other financial sources under expenditure and other financial sources per generally accepted accounting principle | <u>\$ (1,913,305)</u> |

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

| | <u>2015</u> |
|--|--------------|
| Proportion of the net pension liability | 0.07557% |
| Proportionate share of the net pension liability | \$22,739,173 |
| Covered – employee payroll | \$3,270,691 |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 695.24% |
| Plan’s fiduciary net position | \$96,343 |
| Plan’s fiduciary net position as a percentage of the pension liability | 0.42% |

Notes to Schedule:

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

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

*Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

The amounts presented have a measurement date of June 30, 2014.

Data Reference: Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015

| | <u>2015</u> |
|--|--------------------|
| Contractually required contribution (actuarially determined) | \$1,903,251 |
| Contribution in relation to the actuarially required contributions | <u>380,611</u> |
| Contribution deficiency | <u>\$1,522,640</u> |
| Covered – employee payroll | 3,270,691 |
| Contributions as a percentage of covered – employee payroll | 11.64% |

Note to schedule:

Fiscal year 2015 was the first year of implementation, therefore one year is presented.

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

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

| | <u>NUMBER</u> | <u>DISBURSEMENT</u> |
|---|---------------|---------------------|
| <u>US Department of Housing and Urban</u> | | |
| <u>Development</u> | | |
| Passed through: | | |
| Municipal Service Administration: | | |
| Community Development Block Grant | 14.228 | \$386,477 |
| Municipality of San Juan Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | 152,624 |
| Puerto Rico Department of Family: Direct Program: | | |
| Section 8 – Housing Choice Vouchers | 14.871 | <u>45,524</u> |
| | | <u>584,625</u> |
| <u>US Department of Health and Human Services</u> | | |
| Passed through: | | |
| PR Department of Family: | | |
| Child Care and Development Block Grant | 93.575 | <u>108,458</u> |
| <u>US Department of Agriculture</u> | | |
| Passed through: | | |
| PR Department of Education: | | |
| Child and Adult Food Program | 10.558 | <u>11,653</u> |
| <u>US Department of Energy</u> | | |
| Passed through: | | |
| PR Energy Affairs Administration: | | |
| Energy Efficiency and Conservation Grant | 81.128 | <u>1,257</u> |
| | | <u>\$705,993</u> |

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Loíza and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**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**



CARLOS R. DIAZ, CPA, PSC

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

To Honorable Mayor and
Municipality Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Municipality of Loíza, Puerto Rico**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Loíza, Puerto Rico's** basic financial statements, and have issued our report thereon dated June 23, 2016. Our report include a reference to other auditor who audited the financial statements of Brisas de Loíza Project's financial statements. This report does not include the results of the other auditor testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we considered to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness (Finding number 2015-01). 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Municipality of Loíza, Puerto Rico's** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned cost as items 2015-01 and 2015-02.

Purpose of this Report

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

June 23, 2016
Aguas Buenas, Puerto Rico


Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

The stamp No. **E210261** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



CARLOS R. DIAZ, CPA, PSC

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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

To Honorable Mayor and
Municipality Legislative Body
Municipality of Loíza
Loíza, Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited **Municipality of Loíza, Puerto Rico's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Loíza, Puerto Rico's** major federal programs for the year ended June 30, 2015. **Municipality of Loíza, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Loíza, Puerto Rico's basic financial statements include the operations of the Brisas de Loíza Project, which had expenditure of \$2,248,809 in federal awards which are not included in the schedule during the year ended June 30, 2015. Our audit, described below, did not include the operations of Brisas de Loíza Project because Municipality of Loíza, Puerto Rico engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **Municipality of Loíza, Puerto Rico's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Municipality of Loíza, Puerto Rico's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Municipality of Loíza, Puerto Rico's** compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

June 23, 2016
Aguas Buenas, Puerto Rico


Carlos R. Díaz, CPA, PSC
License No. 275
Expire December 1, 2018

The stamp No. **E210262** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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

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

SECTION I - SUMMARY OF AUDITOR'S RESULTS

| | Financial Statements | |
|--|-----------------------------|------------------------------------|
| Type of auditor's report issued | | <u>Qualified</u> |
| Internal control over financial reporting: | | |
| <ul style="list-style-type: none"> • Material weakness identified? <u> X </u> yes <u> </u> no • Significant deficiency identified that is not considered to be material weaknesses? <u> </u> yes <u> X </u> no | | |
| Noncompliance material to financial statement noted? | | <u> X </u> yes <u> </u> no |
| Federal Awards | | |
| Internal control over major programs: | | |
| <ul style="list-style-type: none"> • Material weakness identified? <u> X </u> yes <u> </u> no • Significant deficiency identified that are not considered to be material weakness <u> </u> yes <u> X </u> no | | |
| Type of auditor's report issued on compliance for major programs | | <u>Qualified</u> |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 | | <u> X </u> yes <u> </u> no |
| Identification of major programs: | | |
| <u>CFA Number(s)</u> | | <u>Name of Federal Program</u> |
| 14.228 | | Community Development Block Grants |
| Dollar threshold used to distinguish between type A and type B programs: | | \$300,000 |
| Audit qualified as low-risk audited? | | <u> </u> yes <u> X </u> no |

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2015-1 - General Ledger

The Municipality does not have the accounting practices, policies or internal controls in place to provide for the preparation of financial statements, on a timely basis, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The accounting system does not provide for a self balancing set of accounts for each fund operated by the Municipality, recording cash and other financial resources, together with all related assets, liabilities, revenues, expenditures and changes in fund balances. Therefore, the financial statements must be prepared using financial information obtained from various departments and accounting records. The records are not integrated, and do not follow a double entry system (debit credits). As a result, the records required significant adjustments in order to present the financial position and results of operations of the Municipality in conformity with accounting principles generally accepted in the United States of America.

The Municipality's accounting system does not provide for a subsidiary ledger of account payable and interfund balance that reconcile to the general ledger account balances.

The continued failure to have an adequate accounting system prevents the Municipality from having current, accurate and reliable financial reports and information necessary for management to take efficient and effective actions, including corrective actions when plans and objectives are not being met.

Recommendation

The Municipality should adopt and implement a plan to convert its accounting system to an integrated system that would allow for the monthly closing of the general ledger, as well as the preparation of year-end financial statements in accordance with accounting principles generally accepted in the United States of America.

This plan should provide for:

- a. Assessment of the financial accounting and reporting needs in order to take the necessary steps to meet the financial reporting requirements of GASB Statements No. 34.
- b. The preparation of periodic financial reports to be submitted to the Finance Director and all other interested entities.
- c. Adequate training of all accounting personnel to improve the understanding of the system and to promote operational efficiency.

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2015-2 - Budget

The Municipality's system of internal control relating to the Budgeting function does not adequately prevent operating management from incurring expenditures in excess of the level of funds appropriated and available. The Municipality closed its fiscal year ended June 30, 2015 with an unreserved fund balance deficiency in the general fund approximately \$7,900,059.

This occurs because the budgeting system does not reflect actual available revenues and therefore cannot prevent the obligation of expenditures for which current resources will not be available.

Article 8.004 (b) on the Municipalities Law establishes that the Municipality cannot obligate or spend funds in excess of the appropriations or the ensuing fiscal year. In addition, according to Chapter IV, Section 17, of the basic Standards, the responsibility of oversight to prevent deficits in any municipal fund rest with the Finance Director.

The continued occurrence of this situation could result in the eventual reduction of elimination of municipal services since future revenues will need o be used to pay for accumulated liabilities.

Recommendation

The Municipality should revise and amend the budget as current information related to collections of budgeted revenues became available.

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

SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None

**COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF LOÍZA
EXHIBIT - I
CORRECTIVE ACTION PLAN
FOR YEAR ENDED JUNE 30, 2015**