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

MUNICIPIO DE MARICAO
AUDITORÍA 2014-2015

30 DE JUNIO DE 2015

INDEPENDENT AUDITOR'S REPORT

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United 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

My responsibility is to express opinions on these financial statements based on my audit. I 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified opinion on Governmental Financial Statement

I were not allowed access to the management and the auditors of Employees Retirement System of the Commonwealth of Puerto Rico information used to determine the proportional share of the deferred outflows/inflows of resources, and net pension liability attribute to employees services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits of the governmental activities. As result, I were unable to determine whether any adjustments, were necessary related to the Municipality of Maricao's deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities.

Qualified Opinion

In my opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph. the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality of Maricao of the Commonwealth of Puerto Rico, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4–11 and 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Also the *U.S. Department of Housing and Urban Development, Real State Assessment Center (REAC)* is presented (separate report) for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality's basic financial statements. The *combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other information, such as the*

introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *management's discussion and analysis and budgetary comparison 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

The *combining and individual non-major fund financial statements and schedule of expenditures of federal awards* has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

In my opinion, the *management's discussion and analysis and budgetary comparison information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 17, 2015 on my consideration of the Municipality's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.

Juan A. Rivera, CPA
Lic. #2214

Toa Baja, Puerto Rico
December 17, 2015

Stamp No. **O2726703** of Puerto Rico Society of Certified Public Accountants was affixed to the original report.

Management of the Municipality of Maricao 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. I encourage readers to consider the information presented here in conjunction with the additional information that I have furnished in the accompanying basic financial statements.

During fiscal year ended June 30, 2003, the Municipality implemented the new required financial reporting standards established by Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued by the Governmental Accounting Standards Board (commonly known as "GASB 34"). According to this statement, significant required changes in content and structure have been made in the accompanying Municipality's basic financial statements as of and for the fiscal year ended June 30, 2015, which make the accompanying basic financial statements not easily comparable to the Municipality's general purpose financial statements issued in years prior to 2003. However, the comparison of years after the adoption of GASB 34 will be more meaningful and will go further in explaining the Municipality's financial position and results of operations.

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

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

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Municipality net position increased by $885,813.
- In the Governmental financial statements, governmental fund balances increased by $565,599
- Capital expenditures amounted to $811,929.

USING THIS ANNUAL REPORT

This annual report consists of a series of new financial statements with a change in the focus from the previous financial statements. The new focus is on both the Municipality as a whole (government-wide) and the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the Municipality's accountability.

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"). This report also contains additional required supplementary information (budgetary schedule) in addition to the basic financial statements themselves. These components are described below:

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 position and (2) the statement of activities.

Statement of Net position

The statement of net position presents all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity). Over time, increases or decreases in the net position 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 position changed during the fiscal year ended June 30, 2015. All changes in net position 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 of 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 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) special revenue funds and (4) capital projects funds (collectively known as the "governmental funds").

Fund Financial Statements (continuation)

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 expendable resources. They also focus on the balances of expendable 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 six major funds: (1) the general fund, (2) the debt service fund (3) the SBGP fund and (4) $3,860,000 Loan 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.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information consisting of a budgetary comparison between actual operating results with the original budget and the final amended budget for the general fund.

INFRASTRUCTURE ASSETS

Historically, a government's largest group of assets (infrastructure – roads, bridges, traffic signals, underground pipes [unless associated with a utility], etc.) have not been reported nor depreciated in governmental financial statements. GASB 34 requires that these assets be valued and reported within the governmental column of the Government-Wide Financial Statements. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government develops the asset management system (modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation. The information about the condition and maintenance of condition of the government infrastructure assets should assist financial statement users in evaluating a local government and its performance over time.

As of July 1, 2003, the Municipality retroactively recorded the historical costs of infrastructure assets. Also the Municipality elected to depreciate infrastructure assets instead of using the modified approach.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Net position

As noted earlier, net position may serve over time as a useful indicator of the Municipality's financial position. In the case of the Municipality, net position (excess of assets over liabilities) amounted to $9,878,951 at June 30, 2015.

The largest portions of the Municipality's net position are invested in capital assets net of their related debt $10,578,188. The Municipality's net position are also composed of net position amounting to $9,878,951 that are restricted for (1) future debt service payments and (2) the future acquisition or construction of capital assets. In addition, the Municipality's net position (deficit) are reported net of an unrestricted net asset (deficit) of $(5,340,294).

The unrestricted deficit is the consequence of previous budgets, which did not provide funding for incurred long-term obligations such as compensated absences and others. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. Consequently, the Municipality cannot draw from its existing assets to provide services to its citizens and depends on its taxing ability to continue its operations.

The portion of the Municipality's net position invested in capital assets such as land, buildings, equipment, etc., less any outstanding related debt used to acquire those assets, are used by the Municipality to provide services to its citizens; consequently these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the debt service fund, since the capital assets themselves cannot be used to liquidate these liabilities.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE (continuation)

The following is a condensed presentation of the Municipality's financial position, as reported in the government-wide financial statements:

Condensed Statement of Activities:

	2015	2014
General revenues:		
Property taxes	$ 3,122,866	$ 513,535
Municipal sales tax	1,451,788	1,602,419
Municipal license tax and excise tax	283,799	154,554
Intergovernmental Revenues	529,684	4,933,608
Grants and contributions restricted to specific purposes		-
Interest, fine and penalties	113,997	172,964
Miscellaneous	713,410	116,540
Total revenues	6,215,544	7,493,620
Expenses:		
General government	1,973,264	5,285,899
Urban and economic development	76,883	1,431,415
Culture, recreation and education	241,022	245,397
Health and sanitation	298,693	300,731
Public housing and welfare	17,688	300,413
Public safety	428,184	262,798
Enviromental control	1,696,578	-
Interest on long term obligations	597,420	456,885
Total expenses	5,329,731	8,283,538
Other financing sources		
Change in net assets	885,813	(789,918)
Net assets - at beginning of year	8,993,138	9,783,056
Net assets - at beginning of year - Adjustment	-	-
Net assets - Restated	8,993,138	9,783,056
Net assets - at end of year	$ 9,878,951	$ 8,993,138

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS

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 expendable 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.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S GOVERNMENTAL FUNDS (continuation)

The following is a condensed presentation of the Municipality's balance sheet and results of operations of governmental funds:

Condensed Balance Sheet - Governmental funds:	Amount 2015	Amount 2014
Total Assets - Major Funds	$ 3,925,142	$ 4,383,133
Total Assets - Other Funds	3,340,573	3,095,087
Total assets	7,265,715	7,478,220
Total Liabilities - Major Funds	36,384	5,348,115
Total Liabilities - Other Funds	445,912	626,249
Total liabilities	482,296	5,974,364
Fund Balances - Major Funds	(540,260)	(964,982)
Fund Balances - Other Funds	2,609,715	2,468,838
Total net assets	2,069,455	1,503,856
Condensed Statement of Operations - Governmental funds:		
Total Revenues - Major Funds	7,929,727	8,015,184
Total Revenues - Other Funds	967,525	934,100
Total revenues	8,897,252	8,949,284
Total expenditures - Major Funds	7,506,649	8,445,024
Total expenditures - Other Funds	1,315,004	1,689,207
Total expenditures	8,821,653	10,134,231
Expenditures Over Revenues - Major Funds	423,078	(429,840)
Expenditures Over Revenues- Other Funds	(347,479)	(755,107)
	75,599	(1,184,947)
Other financing sources - Major Funds	-	-
Other financing sources - Other Funds	490,000	-
Total Other financing resources	490,000	-
Expenditures over revenues and other financing sources	565,599	(1,184,947)
Beginning Fund balance	1,503,856	2,688,803
Prior year adjustment	-	-
Ending Fund balance	$ 2,069,455	$ 1,503,856

GENERAL FUND BUDGETARY HIGHLIGHTS

The accompanying Budgetary Comparison Schedule shows a total positive variance between budgeted revenues and actual revenue results of $481,726.

In addition, the accompanying Budgetary Comparison Schedule shows a total positive variance between budgeted expenditures and actual expenditures results of $(842,434).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The accompanying statement of net position reported total gross capital assets, at cost, amounting to $29,004,534 of which $13,504,933 represents building structure assets at June 30, 2015. The related accumulated depreciation and amortization of capital assets amounted to $8,681,475, of which $2,869,725 related to building, structure and building improvements assets at June 30, 2015. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the municipal government, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

Actual costs incurred to purchase or construct capital assets were $811,929 for the year ended June 30, 2015. Depreciation and amortization charges for the year totaled $879,695.

The Municipality finances a significant portion of its construction activities through bond issuances and 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.

Debt Administration

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

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

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

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

ECONOMIC FACTORS, NEXT BUDGETS AND RATES

The Municipality relies primarily on property and municipal license taxes, as well as, federal and state grants to carry out the governmental activities. Historically, property and municipal license taxes have been very predictable with increases not generally exceeding ten percent. Federal grant revenues may vary if new grants are available but the revenue is also very predictable. Those factors were considered when preparing the Municipality's budget for the 2014-2015 fiscal years. There were no significant changes between the budget for fiscal year 2014-2015 and the one for fiscal year 2015-2015.

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 demonstrate the Municipality's' accountability. If you have any questions about the report or need additional financial information, contact the Municipality's Director of Finance, Mr. Modesto Ayala Quiñones at P.O. Box 837, Maricao, Puerto Rico, 00606-0837.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Statement of Net Position
June 30, 2015

ASSETS		
Current Assets:		
Cash and cash equivalents (notes 1g and 3)		$ 136,220
Receivables, net of allowance for doubtful accounts		
Taxes:		
Property taxes	170,610	
Volume of Business Tax	130,112	
Municipal license taxes		
Intergovernmental grants and contributions	566,338	
Accued interest on deposits		
Federal financial assistance		
Other receivable		
Total receivables		867,060
Restricted assets:		
Cash in commercial banks		
Cash in fiscal agent	4,065,262	
Total restricted assets		4,065,262
Other current assets		
Total current assets		5,068,542
Noncurrent Assets:		
Capital assets		
Depreciable capital assets	27,762,819	
Non-depreciable capital assets	1,763,953	
Total capital assets	29,526,772	
Less: accumulated depreciation and amortization	(8,668,668)	
Capital assets, net of accumulated depreciation		20,858,104
Deferred charges, net of amortization		
Total noncurrent assets		20,858,104
Total assets		$ 25,926,646
LIABILITIES		
Current liabilities:		
Accounts payable and other accrued liabilities (notes 1h)	$ 76,212	
Outstanding checks over bank balance	16,975	
Intergovernmental (note 1h and 8)	1,301,799	
Accrued interest on bonds and notes payable	285,913	
Total accounts payable		1,680,899
Defered inflows of cash		482,297
Deposit		5,956
Current portion of long term obligations		
Bonds payable	618,700	
Notes Payable	98,313	
Compensated absences	313,957	
Acrued Christmas Bonus	123,667	
Total current portion of long term obligations		1,154,637
Total current liabilities		3,323,789
Noncurrent liabilities:		
Bonds payable	9,334,603	
Notes Payable	2,882,303	
Compensated absences	507,000	
Total noncurrent liabilities		12,723,906
Total liabilities		16,047,695
NET POSITION (DEFICIT)		
Invested in capital assets, net of related debt		10,578,188
Restricted for (1j):		
Debt service	1,072,402	
Other Specific Purpose	3,568,655	
Total restricted net position		4,641,057
Unrestricted net deficit		(5,340,294)
Total net position		9,878,951
Total liabilities and net assets		$ 25,926,646

The accompanning notes to the basic financial statements are an integral part of this statements

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenditures	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Expenses and Changes in Net Assets
Governmental activities:				
General government	$ 2,247,756	$ 274,492	$ -	$ (1,973,264)
Urban and economic development	815,773	738,890	-	(76,883)
Culture, recreation and education	241,022	-	-	(241,022)
Health and sanitation	298,693	-	-	(298,693)
Public housing and welfare	250,834	233,146	-	(17,688)
Public safety	428,184	-	-	(428,184)
Enviromental control	2,132,668	-	436,090	(1,696,578)
Interest on long term obligations	597,420	-	-	(597,420)
Total governmental activities	7,012,349	1,246,528	436,090	(5,329,731)

General revenues:	
Taxes:	
Property taxes (note 5)	3,122,866
Municipal Sales Tax	1,451,788
Municipal license taxes (note 4)	283,799
License and Permits	69,377
Total taxes	4,927,830
Intergovernmental contributions and reimbursements	529,684
Unrestricted interests, fines and penalties	44,620
Other revenues	713,410
Total general revenues	6,215,544
Net change in net position	885,813
Net position-beginning of fiscal year	8,993,138
Prior Period Adjustment	-
Net position-beginning of fiscal year re-estate	8,993,138
Net position-end of fiscal year	$ 9,878,951

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Balance Sheet
Governmental Funds
June 30, 2015

	Major Funds					
	General Fund	Debt Service Fund	3,860,000 Loan Fund	SBGP Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Unrestricted cash and cash equivalents	$ 136,220	$ -	$ -	$ -	$ -	$ 136,220
Receivables, net of allow. for doubt. accnts:						-
Taxes:						-
Municipal license tax	130,112	-	-	-	-	130,112
Due from other funds	176,079	-	-	-	2,222,622	2,398,701
Due from governmental entities	504,445	-	-	-	30,975	535,420
Temporarily restricted cash and cash equivalents	-	1,986,723	982,745	8,818	1,086,976	4,065,262
Total assets	946,856	1,986,723	982,745	8,818	3,340,573	7,265,715
LIABILITIES						
Outstanding checks over bank balance	103	-	-	-	16,872	16,975
Account payable and accrued expenses	58,119	-	-	-	18,093	76,212
Mature bonds due and payable	-	628,408	-	-	-	628,408
Due to other governmental entities	1,283,049	-	-	-	18,750	1,301,799
Due to other funds	2,136,140	-	23,812	7,518	231,231	2,398,701
Interest payable	-	285,913	-	-	-	285,913
Deposits	5,956	-	-	-	-	5,956
Total Liabilities	3,483,367	914,321	23,812	7,518	284,946	4,713,964
DEFERRED INFLOWS OF CASH						
Deferred Inflows of cash volume of business	35,084	-	-	-	-	35,084
Deferred Inflows os cahs federal assistant	-	-	-	1,300	445,912	447,212
Total Deferred Inflows of Cash	35,084	-	-	1,300	445,912	482,296
FUND BALANCES						
Non-expendable	-	-	-	-	-	-
Restricted	-	1,072,402	958,933	-	2,609,715	4,641,048
Unassigned	(2,571,595)	-	-	-	-	(2,571,595)
Total fund balances	(2,571,595)	1,072,402	958,933	-	2,609,715	2,069,455
Total liabilities and fund balances	$ 946,856	$ 1,986,723	$ 982,745	$ 8,818	$ 3,340,573	$ 7,265,715

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2015

	Major Funds					
	General Fund	Debt Service Fund	3,860,000 Loan Fund	SBGP Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes:						
Property Taxes	$ 3,995,959	$ 103,548	$ -	$ -	$ -	4,099,507
Municipal Sales Tax	363,484	1,088,304	-	-	-	1,451,788
Volume of Business Tax	283,799	-	-	-	-	283,799
License, permit and fines	66,491	-	-	-	-	66,491
Intergovernmental Revenues	552,143	-	-	-	94,143	646,286
Charges of Service	2,883	-	-	-	-	2,883
Federal Financial Assistance	-	-	-	903,758	684,717	1,588,475
Interest	43,213	1,365	-	-	35	44,613
Miscellaneous	524,780	-	-	-	188,630	713,410
Total revenues	5,832,752	1,193,217	-	903,758	967,525	8,897,252
EXPENDITURES:						
Current:						
General government	1,988,181	-	117,116	180,349	247,323	2,532,969
Urban and economic development	-	-	-	723,409	92,364	815,773
Public safety	411,259	-	-	-	16,925	428,184
Health and sanitation	297,574	-	-	-	1,119	298,693
Environmental Control	2,132,668	-	-	-	-	2,132,668
Culture, recreation and education	178,192	-	-	-	62,830	241,022
Public Housing and welfare	54,467	-	-	-	196,367	250,834
Debt Service:						-
Principal (notes 1r and 10)	-	712,164	-	-	-	712,164
Interest on bonds and notes (note 10)	-	597,420	-	-	-	597,420
Capital Outlays	113,851	-	-	-	698,076	811,927
Total expenditures	5,176,191	1,309,584	117,116	903,758	1,315,004	8,821,653
Revevue over (under) expenditures	656,561	(116,367)	(117,116)	-	(347,479)	75,599
OTHER FINANCING SOURCES (USES):						
Proceeds from bond issued						
Operating transfer –in from other funds (note 6)	563,531	330,225	-	-	7,667	901,423
Operating transfer-out to other funds (note 6)	(331,097)	(501,931)	-	-	(68,395)	(901,423)
Total other financing sources (uses)	232,434	(171,706)	-	-	(60,728)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (USES)	888,995	(288,073)	(117,116)	-	(408,207)	75,599
PROCEEDS FROM ISSUANCE OF DEBT	-	-	-	-	490,000	490,000
FUND BALANCES AT BEGINNING OF YEAR	(3,460,590)	1,360,475	1,076,049	-	2,527,922	1,503,856
PRIOR YEAR ADJUSTMENT	-	-	-	-	-	-
FUND BALANCES RESTATED	(3,460,590)	1,360,475	1,076,049	-	2,527,922	1,503,856
FUND BALANCES AT END OF YEAR	$ (2,571,595)	$ 1,072,402	$ 958,933	$ -	$ 2,609,715	$ 2,069,455

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

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Reconciliation of the Balance Sheet of
Expenditures and Changes in Fund Balances
Governmental Funds to the Net Position Statement
Year Ended June 30, 2015

Amounts reported as Net Position for Governmental Activities in the Statement of Net Assets is different than the amount reported as Fund Balance in the Governmental Fund Balance Sheet because:

Total Fund Equity as Show on the Balance Sheet - Governmental Funds		$ 2,069,455
Capital Asstes used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		20,858,104
Long-term liabilities, including bond payable, are not an obligation of current financial resources and, therefore, are not reported in the governmental funds		
Bonds, and other long term debt	$ (12,305,511)	
Accrued obligations - Compensated Absences	(820,957)	
Accrued obligations - Christmas Bonus	(123,667)	(13,250,135)
Long-term receivable are not a receivable of the current financial resources and, therefore, are not reported in the governmental funds		
Intergovernmental Receivable	201,527	201,527
Net change in net position as reported in the accompanying statement of activities		$ 9,878,951

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year Ended June 30, 2015

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

Net change in fund balances as reported in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds	$	565,599
Governmental funds report capital outlays as expenditures. However, in the accompanying statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	$	811,927
Depreciation expense		(879,695)
Repayment of bond and notes principal is recorded as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		712,164
Expenditures and revenue recorded for government-wide and not for governmental funds		(324,182)
Net change in net assets as reported in the accompanying statement of activities	$	885,813

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

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1. GOVERNMENTAL ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Government Background Information

The Municipality of Maricao of the Commonwealth of Puerto Rico (the "Municipality") is a local government constituted in 1874 with full legislative, fiscal and administrative powers to operate as a government. The Municipality assumes responsibility for public safety, health and sanitation, public housing and welfare, culture and education, urban development and many other general and administrative duties.

The laws and regulations of the Commonwealth of Puerto Rico (the "Commonwealth") provide for separation of powers of the executive, legislative and judicial branches of the Commonwealth's and the Municipalities' governments. The executive power of the Municipality is exercised by a Mayor, who is elected every four years and is assisted by the Administrative Cabinet, which is appointed by the Mayor. The legislative power is exercised by the Municipal Legislature, which is also elected every four years. The judiciary power is exercised by the General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality.

B. Financial Reporting Entity

The accounting policies and financial reporting practices of the Municipality conform to the accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments.

According to GAAP, the financial reporting entity for the Municipality consists of: (1) the primary government, which is composed of all municipal departments and units under the legal and administrative control of the Mayor and the Municipal Legislature, and (2) all component units.

In evaluating how to define the Municipality for financial reporting purposes, the Municipality's management has addressed all potential entities and organizations that may be considered component units according to the criteria set forth by Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*, both issued by the Governmental Accounting Standards Board.

GAAP defines component units as those entities that: (1) are legally separate organizations for which the Municipality's elected officials are financially accountable, and (2) other organizations for which the nature and significance of their relationship with the Municipality are such that exclusion of their financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete. Financial accountability exists if the Municipality appoints a voting majority of the organization's governing body, and if either one of the following conditions exist: (1) the Municipality can impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality.

GASB Statement No. 39, which was early adopted by the Municipality on July 1, 2003, amended the provisions of GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the Municipality is not financially accountable should be reported as component units based on the nature and significance of their relationship with the Municipality. Generally, GASB Statement No. 39 requires reporting, as a discretely presented component unit, an organization that raises and holds economic resources for the direct benefit of a governmental entity. Such organizations are legally separate, tax-exempt entities that meet all of the three specific criteria that address benefit, entitlement or access, and significance.

The Municipality's management has concluded that, based on the aforementioned criteria, there are no legally separate entities or organizations considered component units of the Municipality according to GAAP as of June 30, 2015 nor for the year then ended.

C. New Financial Reporting Model

On July 1, 2003, the Municipality adopted the provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (commonly known as "GASB 34"), issued by the Governmental Accounting Standards Board (GASB). This statement, as amended, established a new financial reporting model for state and local governments.

In addition, the Municipality adopted the following required statements issued by GASB and the Financial Accounting Standards Board ("FASB"):

i. **GASB Statement No. 33 –** *Accounting and Financial Reporting for Nonexchange Transactions;*
ii. **GASB Statement No. 36 –** *Recipient Reporting for Certain Shared Nonexchange Revenues;*
iii. **GASB Statement No. 37 –** *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;*
iv. **GASB Statement No. 39** – *Determining Whether Certain Organizations are Component Units;*
v. **GASB Interpretation No. 6 –** *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*
vi. **GASB Interpretation No. 54** – *Fund Balance Reporting and Governmental Fund Type Definitions*
vii. **GASB Statement No. 63-** *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
viii. **GASB Statement No. 65-** *Items Previously Reported as Assets and Liabilities*
ix. **GASB Statement No. 68-** *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*
x. **GASB Statement No. 70-** *Accounting and Financial Reporting for Non-exchange Financial Guarantees*

Simultaneously to the adoption of GASB Statement No. 34, the Municipality adopted certain pronouncements issued by FASB and all of its predecessor bodies, such as the Accounting Principles Board (APB), for its governmental activities.

In this respect, the Municipality adopted the pronouncements issued by these entities that were issued on or before November 30, 1989, and that do not conflict with GASB pronouncements.

Accordingly, on July 1, 2003 the Municipality adopted the provisions of APB Opinion No. 21, *Interest on Receivables and Payables*, to account for non-interest bearing receivables and payables reported in the accompanying basic financial statements.

The effects of implementing the aforementioned pronouncements have been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the cumulative effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

According to the new financial reporting model established by GASB 34, as amended, the minimum required presentation for financial reporting purposes of the Municipality is composed of the following elements:

1. **Management's Discussion and Analysis ("MD&A")** – MD&A is a required supplementary information used to introduce the basic financial statements and provide an analytical overview of the Municipality's financial activities for the year ended June 30, 2015 based on the Municipality's management knowledge of the transactions, events and conditions reflected in the basic financial statements and the fiscal policies that control the Municipality's operations.

2. **Government-Wide Financial Statements ("GWFS")** – GWFS is a set of financial statements composed of: (1) a statement of net position and (2) a statement of activities.

The government-wide financial statements are aimed at presenting a broad overview of the Municipality's finances by focusing on operational accountability through reporting the financial position and results of operations of the Municipality as a whole using methods that are similar to those used by most private businesses.

C. New Financial Reporting Model (continuation)

The statement of net position provides short-term and long-term information about the Municipality's financial position, which assist management to determine the Municipality's economic condition at June 30, 2015 by presenting all of the Municipality's assets and liabilities, with the difference between these two items reported as "net position" (equity). Net positions are reported in the following three categories:

- **Invested in Capital Assets, Net of Related Debt** – This consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- **Restricted Net Position** – These result when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the Municipality's policy to use restricted resources first, and then unrestricted resources as they are needed.

- **Unrestricted Net Position** – These consist of net position which do not met the definition of the two preceding categories.

- Unrestricted net positions often are designed to indicate that management does not consider them to be available for general operations. Unrestricted net positions often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities presents financial information showing how the Municipality's net position changed during the year ended June 30, 2015. The statement of activities demonstrates the degree to which 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, segment or operational unit. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, segment or operational unit. Program revenues also include 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. Resources that are dedicated internally by the Municipality are reported as general revenues rather than as program revenues. The Municipality does not allocate general government (indirect) expenses to other functions.

Under the provisions of GASB 34, all activities carried out by the Municipality are considered governmental in nature for financial reporting purposes. As a result, no business-type activities are reported in the accompanying basic financial statements.

3. **Fund Financial Statements ("FFS")** – FFS is a set of financial statements composed of: (1) a balance sheet (financial position) and (2) a statement of revenues, expenditures and changes in fund balances (deficits) of the Municipality's governmental funds (results of operations).

   The fund financial statements focus on: (1) financial accountability, (2) individual parts of the Municipality's government and (3) reporting the Municipality's operations in more detail than the government-wide financial statements.

   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.

C. New Financial Reporting Model (continuation)

On March 2009, the Governmental Accounting Standards Board (GASB) issued GASB 54 in an effort to improve the consistency in reporting fund balance components, enhance fund balance presentation, improve the usefulness of fund balance information, and clarify the definitions of the governmental fund types.

In summary, GASB 54 introduces entirely new terminology and classification of fund balances in governmental funds. This new standard also establishes a hierarchy of fund classifications as follows:

1. Non-spendable Amounts: that is, the fund balance which cannot be spent as they are associated with assets such as inventory, prepaid expenses, long term receivables or permanent fund principal.

2. Spendable Amounts: these amounts can be spent, but are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, these classifications are:

a. Restricted
b. Committed
c. Assigned and
d. Unassigned

How to classify spendable amounts:

Restricted Fund Balance: this balance represents amounts that are constrained for a specific purpose through restrictions of external parties (i.e. creditors, grantors, contributors, or laws or regulations of other governments), or by constitutional provision or enabling legislation, pursuant to the definition of "restricted" in paragraph 34 of GASB 34, as amended by GASB 46.

Committed Fund Balance: this balance represents amounts that are constrained for specific purposes imposed by a formal action of the government's highest level of decision making authority (i.e. amounts that have been committed by a governing body legislation, ordinance or resolution for a specific purpose). Furthermore, fund balances cannot be sued for other purposed unless the government used the same acting it took to originally commit the amounts.

Assigned Fund Balance: this balance represents amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. Intent should be expressed by (1) the governing body itself (2) a body (e.g. a budget committee) or official to whom the governing body has delegated authority to assign amounts to be used for specific purposes.

The key distinction between committed and assigned is that committed monies are set by the highest authority (i.e. the board) and such restrictions can only be removed by this authority.

Unassigned Fund Balance: this balance represents the residual mounts for a government's General Fund; it includes all amounts that are not classified in the previous three categories (restricted, committed and assigned). Furthermore only the General Fund can report unrestricted fund balance.

Encumbrance – Encumbrances should not be displayed as a separate classification of fund balance on the face of the balance sheet. For governments that use encumbrance accounting, significant encumbrances should be disclosed in the notes to the financial statements by major funds and non-major funds in the aggregate in conjunction with required disclosures about other significant commitments.

C. **New Financial Reporting Model (continuation)**

The minimum number of funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its funds within the following governmental fund categories:

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

Special Revenue Funds – The special revenue funds are used to account for and to report the proceeds of specific revenues derived from grants or other revenue sources that are restricted or committed to expenditures for specific purposes other than debt services or capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes.

Debt Service Fund– The debt service fund is used to account for and to report financial resources for that are restricted, committed r assigned to expenditure principal and interest for: (1) general long-term debt for which debt service payments are legally mandated to be accounted for in a debt service fund, and/or (2) general long-term debt for which the Municipality is being accumulating financial resources in advance, to pay principal and interest payments maturing in future years (such bonds payable and notes payable).

General long-term debts for which debt service payments do not involve the advance accumulation of resources (such as capital leases, compensated absences, claims and
Judgments, advances from CRIM, and landfill closure and post closure maintenance costs) are accounted for in the general fund.

Long-term debt's principal and accrued interest due on July 1 of the following fiscal year are accounted for as liabilities in the debt service fund at June 30, if resources are available at June 30 for its payment.

Capital Projects Funds – Capital projects funds are used to account for and report the financial resources that are restricted, committed or assigned to expenditures for capital outlays including acquisition or construction of major capital facilities, other assets and permanent improvements. The use of the capital projects funds has been reserved for major capital acquisitions or construction activities that would distort financial resources trend data if not reported separately from the other Municipality's operating activities.

The routine purchase of capitalizable assets (such as vehicles and other minor capital assets) has been reported in the general fund.

The Municipality has no significant operations or activities that: (1) are financed and operated primarily in a manner similar to private business enterprises, where the costs of providing goods or services to the general public is financed primarily through user charges, or (2) are fiduciary in nature.

As a result, the Municipality does not report proprietary nor fiduciary funds in the accompanying fund financial statements. All Municipalities' funds are classified as governmental for financial reporting purposes.

4. ***Notes to the Basic Financial Statements*** – A set of notes that provide information that is essential to a user's understanding of the basic financial statements.

C. **New Financial Reporting Model (continuation)**

5. ***Required Supplementary Information (other than MD&A)*** – A set of reports and information reported along with, but separate from, the basic financial statements of the Municipality, such as: (1) Budgetary Comparison Schedule – General Fund, (2) the Notes to Budgetary Comparison Schedule and (3) the Schedule of Funding Progress - Employees' Retirement System of the Commonwealth of Puerto Rico and Its Instrumentalities.

D. **Measurement Focus and Basis of Accounting**

The term measurement focus refers to what is being expressed in reporting financial position and performance, that is, which resources are being measured in the accompanying basic financial statements. Two different measurement focuses have been applied in the accompanying basic financial statements: (1) the flow of current financial resources and (2) the flow of economic resources. Basis of accounting refers to when transactions have been recognized in the accompanying basic financial statements.

GAAP provides for the use of two different bases of accounting, which have been used in the accompanying basic financial statements: (1) the accrual basis and (2) the modified accrual basis.

The accompanying government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are generally recorded when earned and expenses are generally recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant inter-fund activities have been eliminated from these government-wide financial statements.

The accompanying fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are generally recognized as soon as they are both measurable and available (that is, earned and collected or expected to be collected within the next 90 days following the fiscal year-end) to pay liabilities of the current period, except property tax revenues, for which the availability period is 60 days.

In applying the susceptible to accrual concept to intergovernmental revenue in the accompanying fund financial statements, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Municipality on the specific purpose or project before any amounts will be reimbursed.

Revenue is, therefore, generally recognized as expenditures are incurred. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In the accompanying fund financial statements, expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred, except for: (1) principal payment and interest on long-term obligations, which are recorded when due, except for principal and interest due in July 1 of the following fiscal year which are recorded when resources are available in the debt service funds (generally June 30); and (2) vacation leave, sick leave, Christmas bonuses, obligations under capital leases, amounts subject to judgments under litigation, and other long-term obligations, which are recorded under the accrual basis of accounting in the accompanying government-wide financial statements.

In December 1998, the Governmental Accounting Standards Board issued Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* ("GASB 33"), effective for financial statement for periods after June 15, 2000, which the Municipality adopted on July 1, 2003. This statement established accounting and reporting standards for non-exchange transactions involving cash and financial or capital resources (for example, most taxes, grants and private donations). In a non-exchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return.

D. **Measurement Focus and Basis of Accounting (continuation)**

This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups non-exchange transactions of governments into four classes, based on their principal characteristics: (a) derived tax revenue; (b) imposed non-exchange revenue; (c) government mandated non-exchange transactions; and (d) voluntary non-exchange transactions.

The adoption of this statement altered significantly the basis of accounting used by the Municipality for the recognition of revenue and expenditures and related assets and liabilities, as described above.

The effect of the adoption of this pronouncement has been reported as changes in accounting principles in the accompanying basic financial statements. Accordingly, the cumulate effects of such transactions have been reported retroactively as restatements of fund balances at July 1, 2003.

E. **Major and Non-major Funds**

Under the provisions of GASB 34, the Municipality is required to segregate funds among major and non-major categories within the fund financial statements. Major individual governmental funds are reported as separate columns in the accompanying fund financial statements, while data from all non-major governmental funds are aggregated into a single column, regardless of fund type.

At minimum a fund is considered major if: (1) it is the primary operating fund of the Municipality (i.e. the general fund) or; (2) meets both of the following criteria:

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

Based on the above-mentioned criteria, the Municipality's general fund, the debt service fund, the "Resoluciones Conjuntas 82", NSP Fund, SBGP Fund and Resurface Fund are the only six funds that qualify as major funds for the fiscal year ended June 30, 2015, and accordingly, have been reported as major funds in the accompanying fund financial statements. All other governmental funds of the Municipality are considered non-major for financial reporting purposes.

F. **Statutory (Budgetary) Accounting**

The Municipality's budget is adopted in accordance with a statutory basis of accounting, which is not in accordance with GAAP. Revenue is generally recognized when cash is received.

Expenditures are generally recorded when the related expenditure is incurred or encumbered. Available appropriations and encumbrances are established to lapse one year after the end of the fiscal year. Amounts required to settle claims and judgments against the Municipality, and certain other liabilities, are not recognized until they are encumbered or otherwise processed for payment.

In the governmental funds, encumbrance accounting is a under the statutory basis of accounting, the Municipality uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure significant aspect of budgetary control.

The accompanying budgetary comparison schedule – general fund, only presents the information for the general fund, which is the only Municipality's fund with a legally adopted budget, as required by GAAP.

F. Statutory (Budgetary) Accounting

Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of differences in the deficiency of revenues and other financing sources under expenditures and other uses of financial sources for the year ended June 30, 2015 was presented for the general fund as part of the accompanying budgetary comparison schedule.

G. Cash and Cash Equivalents

The Municipality's cash and cash equivalents are composed of cash on hand, demand deposits, and short-term investments in certificates of deposit with original maturities of three months or less from the date of acquisition.

The Municipality follows the practice of pooling cash and cash equivalents. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing deposits with private commercial banks.

Cash with fiscal agent in the debt service fund represents additional property tax collections retained by the Municipal Revenue Collection Center ("CRIM", by its Spanish Acronym), a municipal corporation (not a component unit of the Commonwealth or of the Municipality) and additional potion of sales taxes collected and distributed by P.R. Treasury Department and deposited in P.R. Governmental Bank. Such cash balances are restricted for the payment of the Municipality's debt service, as established by law.

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of inter-fund loans).

Tax receivables in the general fund represent amounts owed by taxpayers principally for individual and corporate property taxes, municipal license taxes and construction excise taxes.
A portion of these tax receivables is recognized when they become measurable and available based on actual collections during the 60 days following the fiscal year-end related to tax returns due before year-end. Tax receivables also include amounts owed by taxpayers from taxable years prior to June 30, 2015, estimated to be collectible but not currently available, as a result of the adoption of GASB 33.

Accounts receivables are stated net of estimated allowances for doubtful accounts, which are determined based upon past collection experience and current economic conditions.

Intergovernmental receivables mainly represent amounts owed to the Municipality by the Commonwealth and the federal government of the United States of America for: (1) intergovernmental charges, and (2) for reimbursement of expenditures incurred pursuant to federally funded programs, respectively. In the accompanying government-wide financial statements, receivables consist principally of all revenues earned at year-end and not yet received. Allowances for doubtful accounts are based upon historical trends and the periodic aging of accounts receivable.

Major receivable balances for the governmental activities include municipal license taxes, property taxes and construction excise taxes, among others.

Non-exchange transactions collectible but not available are deferred in the accompanying fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the accompanying government-wide financial statements in accordance with the accrual basis of accounting. Interest income is recorded when earned only if collected within 60 days after year-end since they would be considered both measurable and available. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

I. Inventories and Prepaid Expenses

Inventories consist of materials and supplies held for consumption. Generally, inventories and prepaid expenses are valued at cost and predominantly on the first-in, first-out basis. Governmental fund inventories and prepaid expenses are recorded as expenditures (consumption method) when purchased rather than capitalized as an asset. Only significant amounts of inventory and prepaid expenses at the end of the year would be capitalized, if any, in the governmental funds. However, inventories are always capitalized (purchase method) in the statement of net position.

J. Temporarily Restricted Assets

Certain cash and cash equivalents set aside by the general fund, the capital projects fund and the special revenue fund are classified as temporarily restricted assets since their use is limited

For: (a) the compliance with debt service requirements of bonds and notes payable as established in the respective debt agreements, (b) the funding of construction and permanent improvement projects, and (c) the funding of federal and state sponsored programs.

K. Deferred Charges

Deferred charges in the accompanying statement of net position consist of debt bond issuance costs, which are amortized over the term of the related debt using the straight-line method. In the fund financial statements, bond issuance costs are recognized in the current period as expenditure, whether or not withheld from the actual debt proceeds received.

L. Inter-fund Transactions

Permanent reallocations of resources between the Municipality's funds are classified as inter-fund transfers. The Municipality has the following types of transactions recorded among funds in the accompanying fund financial statements:

- ***Operating Transfers*** – Legally required transfers that are reported when incurred as "operating transfers-in" by the recipient fund and as "operating transfer-out" by the disbursing fund.
- ***Inter-fund Payments (Quasi-external Transactions)*** – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditure of the disbursing fund.

For the purposes of the accompanying government-wide statement of activities, all inter-fund transfers between individual governmental funds have been eliminated.

M. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Municipality as a whole, such as land, land improvements, easements, buildings, building improvements, vehicles, machinery, equipment, works, infrastructure and all other intangible assets that are used in the operations of the Municipality and that have initial useful lives extending beyond a single reporting period (fiscal year). Infrastructure assets are generally immovable in nature and include roads, bridges, streets and sidewalks, drainage systems and other similar assets.

In the accompanying government-wide statement of net position, all individual capital assets over the threshold amount of $500 have been capitalized and depreciated.

In the accompanying government-wide statement of net position, all capital assets are valued at their historical cost or estimated historical cost if actual is unavailable, except for donated capital asset; which are recorded at their estimated fair value at the date of donation.

M. Capital Assets (continuation)

Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2015. The costs of normal maintenance and repairs that do not add value to the asset or materially extend capital asset lives are not capitalized.

All capitalized assets are depreciated over their estimated useful lives under the straight-line method. All individual capital assets under the above mentioned capitalization threshold are charged directly to expense in the accompanying government-wide statement of activities.
The estimated useful lives of major capital asset categories are:

Land improvements	20 years
Building and building improvements	50 years
Infranstructure	20 to 50 years
Motor vehicles	7 to 10 years
Furniture and fixtures	5 to 20 years
Machinery and equipment	5 to 20 years

Equipment held under capital leases is depreciated under the shorter of its estimated useful life of the assets or the lease term. Capital assets are recorded as capital outlays expenditures in the acquiring fund for the purposes of the accompanying statement of revenues, expenditures and changes in fund balances – governmental funds.

N. Deferred Inflows of Cash

The Municipality reports deferred inflows of cash on its basic financial statements. Deferred inflows of cash arises when potential revenue does not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Available is defined as due (or past due) at June 30, and collected within 90 days (60 days for property taxes) thereafter to pay obligations due at June 30. Deferred inflows of cash also arise when the Municipality receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Municipality has a legal claim to the resources, the liability for deferred inflows of cash is removed and revenue is recognized. Deferred inflows of cash at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them.

Deferred Inflows of Cash at June 30, 2015 amounted to $482,296 in the accompanying government-wide statement of net position and balance sheet and governmental funds.

O. Compensated Absences

Compensated absences are accounted for under the provisions of Statement No. 16, *Accounting for Compensated Absences*, issued by the Governmental Accounting Standards Board (GASB 16).Compensated absences include paid time off made available to employees in connection with vacation, sick leave and compensatory time. According to GASB 16, the liability for compensated absences recorded in the accompanying government-wide statement of net position is strictly limited to leave that: (1) is attributable to services already rendered on or before June 30, 2015, and (2) is not contingent on a specific event (such as illness) that is outside the control of the Municipality and the employee. The liability for compensated absences, include salary-related costs, which are directly and incrementally related to the amount of salary paid to the employee (such as employer's share of Social Security taxes, Medicare taxes, employer contributions to retirement system and others).

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

O. **Compensated Absences (continuation)**

Upon termination of employment, an employee receives compensation for all accumulated unpaid regular vacation leave at the current rate. In the case of regular sick leave, if the employee terminates his or her employment with the Municipality before reaching 10 years of services, such regular sick leave days is not paid to the employee. Upon termination of employment, an employee does not receive compensation for compensatory time, if not consumed. After 10 years of services any regular sick leave balance is paid to the employee. Accumulated vacation time is fully vested to the employees at any time. At June 30, 2015, the Municipality has recorded a liability for compensated absences amounting to $820,957 in the accompanying government-wide statement of net position.

P. **Claims and Judgments**

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund.

Q. **Long-Term Debt**

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statement of net position, except for principal and interest payment on long-term obligations due in July 1 of the following fiscal year, which is recorded in the fund financial statements when resources are available in the debt service fund (generally at June 30). Bonds and notes premiums and discounts, as well as, issuance costs, are deferred and amortized over the life of the debt in the accompanying government-wide financial statements.

Long-term debt for governmental funds is generally not reported as liabilities in the fund financial statements. In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

R. **Risk Financing**

The Municipality purchases commercial insurance covering casualty, theft, tort claims, and other losses. The Commonwealth, through its Department of Treasury, pays the insurance premiums on behalf of the Municipality and then is reimbursed each year through monthly equal payments. The current insurance policies have not been canceled or terminated. For workers' compensation and disability insurance, the Municipality obtains insurance coverage through the State Insurance Fund Corporation (a component unit of the Commonwealth) and the Occupational Disability Fund (which is a trust fund administered by the Department of Labor and Human Resources of the Commonwealth).

S. **Total Columns**

Total columns on the fund financial statements are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position or results of operations in conformity with GAAP. Such data is not comparable to a consolidation since inter-fund eliminations have not been made in the accompanying fund financial statements.

T. **Use of Estimates**

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

U. Future Adoption of Accounting Pronouncements

- Statement No. **68** *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement No. 27-The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

  This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria.

  The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

- Statement No. **67**, Financial Reporting for Pension Plans, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

  This Statement is effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

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

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

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration.

  This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

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

  This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2015, and should be applied on a prospective basis. Earlier application is encouraged.

U. Future Adoption of Accounting Pronouncements (continuation)

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

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Municipality's general fund is the only governmental fund for which an annual budget is legally adopted. The Municipality's elected Mayor is legally required to prepare and submit to the elected Municipal Legislature an annual balanced budget for the ensuing fiscal year. The annual budget is prepared by the Municipality's Department of Finance, and takes into consideration the advice provided by all municipal departments and divisions. The appropriations made for any fiscal year shall not exceed the total revenues, including available surplus, estimated for said fiscal year, unless the imposition of taxes sufficient to cover said appropriations is provided by law.

The annual budget, which is developed utilizing elements of performance-based program budgeting and zero-based budgeting, includes an estimate of revenues and other financing resources of the ensuing fiscal year under: (1) laws existing at the time the budget is submitted; and (2) municipal legislative measures proposed by the Mayor and submitted with the proposed budget, as well as the Mayor' recommendations as to appropriations that in his judgment are necessary, convenient, and in conformity with the four-year governmental plan adopted by the Municipality.

The Municipal Legislature may amend the budget submitted by the Mayor but may not increase any items so far to cause a deficit without imposing taxes or identifying other sources of revenue to cover such deficit. Upon approval by the Municipal Legislature, the budget is referred to the Mayor who may decrease or eliminate any line item but may not increase or insert any new line item in the budget. The Mayor may also veto the budget in its entirety and return it to the Municipal Legislature with his objections.

If a budget is not adopted prior to the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until the Municipal Legislature and the Mayor approve a new budget. This permits the Municipality to continue making payments for its operations and other purposes until the new budget is approved.

The Municipality's annual budget is prepared on the budgetary basis of accounting, which is not in accordance with GAAP. Accordingly, for budgetary purposes the Municipality uses encumbrance accounting. The encumbrances (principally purchase orders and contracts) are considered expenditures when a commitment is made. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of budgetary appropriations and GAAP fund balances and do not constitute expenditures or liabilities on a GAAP basis because the commitments will be honored during the subsequent year. The encumbered balance of any appropriation of the general fund at the end of the fiscal year will lapse to the following fiscal year. In addition, the Municipal Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual department or division of the Municipality. However, the Municipality is statutorily required to satisfy the debt service requirements, regardless of whether such amounts are appropriated or not.

Appropriations are enacted for certain departments and divisions. Appropriations for capital projects are made for each bond/note issue and the authorization continues for the expected construction period.

The Municipality's Finance Department has the responsibility to ensure that budgetary spending control is maintained on an individual department/division basis. The Finance Department may transfer part or all of any encumbered balance within a department to another department subject to approval. Budgetary control is exercised through the Municipality's accounting system. This system ensures that encumbrances or expenditures are not processed if they exceed the department/division's total available spending authorization, which is considered its budget. The legal level of budgetary control is at the individual department level for the general fund expenditures, principal and interest due for the year for the debt service fund, and by bond/note authorization for capital expenditures.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continuation)

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

3. CASH AND INVESTMENTS

The Municipality maintains its deposits of cash in the Government Development Bank for Puerto Rico ("GDB"), a governmental bank and component unit of the Commonwealth who serves as fiscal agent of the Municipality, and in various commercial banks located in Puerto Rico.

The balances deposited in GDB are uninsured and uncollateralized. The balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation. However, under the laws and regulations of the Commonwealth, public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance provided by the FDIC. All securities pledged as collateral are held by an agent of the Secretary of the Treasury of the Commonwealth in the name of the Municipality.

Municipality follows the practice of pooling cash. At June 30, 2015, the pool cash account in interest bearing commercial banks accounts had a balance of $4.2 million of which $ 3.9 million are in the Government Development Bank, and $ .3 million all was deposit in Popular Bank of Puerto Rico.

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

A. Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash equivalents of $ .3 million consisting of deposit in commercial bank accounts, which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage.

B. Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2015, the Municipality has balances deposited in commercial banks amounting to $ .3 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $3.9 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

C. Interest Rate Risk

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

3. CASH AND INVESTMENTS (continuation)

D. Foreign Exchange Risk

This is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit. According to the aforementioned investment guidelines, adopted by the Municipality, the Municipality is prevented from investing in foreign securities or any other types of investments for which foreign exchange risk exposure may be significant.

The Municipality's bank balance of deposits and investments with financial institutions are categorized to provide an indication of the level of collateral risk assumed by the Municipality at June 30, 2015.

Risk categories are described as follows:

Category 1: Insured or collateralized with securities held by the Secretary of the Treasury' agents in the Municipality's name.

Category 2: Collateralized with securities held by pledging financial institution's trust department or agent in the Municipality's name.

Category 3: Uncollateralized; including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Municipality's name.

The carrying amount (book balance) and the bank balance of deposits and investments with financial institutions of the Municipality at June 30, 2015 consist of the following:

	Carrying Amount	Bank Balance
Deposits in commercial banks	291,187	$ 512,377
Deposits in governmental banks	3,910,295	3,910,295
Total	$ 4,201,482	$ 4,422,672
Bank balances of deposits and investments:		
Category 1		$ 512,377
Category 2		-
Category 3		3,910,295
Total bank balances		$ 4,422,672

4. MUNICIPAL TAXES

A. MUNICIPAL LICENSE TAXES

The Municipality imposes a municipal license tax on all businesses that operate within the Municipality, which are not totally or partially exempt from the tax pursuant to the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return. The declaration filing date is ten days after the State Income Tax is filed (the15th day of April each year). Entities with sales volume of $ 1 million or more must include rates established by the Municipality. At June 30, 2015, the municipal tax rates imposed by the Municipality were 1.50 percent for financing institutions and 0.50 percent for any other taxpayers. Any taxpayers, who have been granted with partial tax exemptions under any of the incentive tax laws of the Commonwealth, ultimately pay municipal license taxes at reduced tax rates, generally between 60 percent and 90 percent under standard rates.

4. MUNICIPAL TAXES (continuation)

A. MUNICIPAL LICENSE TAXES (continuation)

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax form based on the actual volume of business generated in the preceding calendar year. The tax can be paid by the taxpayer in two equal installments: (1) the first payment due in July 15, and (2) January 15 subsequent to the filing of the declaration. The first installment of the tax covers the taxable period (six months) ended December 31 subsequent to the filing date of the declaration, while the second installment of the tax covers the taxable period (six months) ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration, a 5 percent discount is granted automatically on the tax amount due.

Any municipal license taxes collected in advance (that is, prior to June 30 but pertaining to the next fiscal year) are recorded as deferred revenues. As of June 30, 2015, the total municipal license tax receivable (net of the allowance for estimated uncollectible amounts) was $130,112(base of subsequent or days collections).

B. MUNICIPAL SALES AND USE TAX

On September 23, 2006 the Municipal legislature of the Municipality of Maricao approved the Ordinance No. 15 (Series 2006-2007) based of State Public law No. 117 of July 4, 2006 establishing a local sales and use tax of 1.5% over the sale of goods and services made within the Municipalities boundaries. The Ordinance was effective ten days after public notice, and under this Ordinance, every business doing retail sales is required to register on the Municipality to obtain a retailer's Registration Certificate. The retails are required to file monthly sales tax returns by the 10th day following the month in which the tax was collected.

On July 29, 2007, the State Public Law No. 80 established that the municipalities may collect only 1.0% of its sales and use tax and the Puerto Rico Treasury Department (PRTD) the other 0.5%. Resources collected would be use for construction, permanent improvements, health and public safety services, the improvements in the management of solid waste disposal and the implementation of recycling programs by the Municipality.

The tax collected by PRTD will be distributed to the municipalities in three separate funds: Municipal Development Fund, Municipal Redemption Fund and Municipal Improvements Fund. The Municipal Development Fund will be based on 0.2 % of the 0.5 % collected but will be distributed within all municipalities by formula based on total amounts collected, operational budgets and population. Another 0.2% will be deposit on a Municipal Redemption Fund in the Government Development Bank for Puerto Rico (GDB) and use only for the repayment of future municipal loans to GDB. The other 0.1 % will be deposit in a Municipal Improvements Fund in GDB and assigned by the State Legislature for construction and permanent improvements projects to the municipalities. During year 2014-2015 the Municipality collected $363,484 from sales taxes.

5. PROPERTY TAXES

The Municipality is authorized by law to impose and collect personal and real property taxes. Personal property taxes can be imposed to any natural or legal person engaged in trade or business that at January 1 of each year is owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year using the book value of personal property assets owned by the taxpayer at January 1 and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date.

At June 30, 2015, the total personal property tax rate in force was 6.38 percent (of which taxpayers pay 6.18 percent and .20 percent is reimbursed by the Department of Treasury of the Commonwealth. Real property taxes are assessed by CRIM. The assessment on real property is made every January 1 and is based on estimated current values of the property deflated at 1957 market prices. At June 30, 2015, the total real property tax rate in force was 8.38 percent (of which 8.18 percent is paid by taxpayers).

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5. PROPERTY TAXES (continuation)

Residential real property occupied by its owner is exempt by law from property taxes on the first $15,000 of the assessed value (at 1957 market prices). For such exempt amounts, the Department of Treasury of the Commonwealth assumes payment of the basic tax (4.00 and 6.00 percent for personal and real property, respectively) to the Municipality, except for property assessed of less than $3,500 (at 1957 market prices), for which no payment is made. Revenue related to the basic tax on exempt property is recorded in the general fund when collections are received from the CRIM.

CRIM is required to remit 1.03 percent of the personal and real property tax collected to the Municipality to be used for the partial funding of the debt service requirements on general obligations and notes payable of the Municipality. In addition, 1.35 percent of the total personal and real property taxes collected by CRIM is restricted for debt service requirements of the Municipality and is retained by GDB for such purposes. Accordingly, such amount is recorded as revenues in the debt service fund when collected and reported by the CRIM.

The Additional Lottery System of the Commonwealth (the "Additional Lottery") is an operational unit reported as an enterprise fund of the Commonwealth, which currently operates several betting alternatives to the citizens of Puerto Rico. The Additional Lottery is required every year to distribute a portion of its excess of revenues over expenses as follows:

i. Thirty five percent (35%) of its net earnings (defined as the excess of revenues over expenses less an amount earmarked for the Fund for Rent and Home Improvement Subsidy Program for the Low-Income Qualifying Elderly) is earmarked to the municipalities of the Commonwealth of which a maximum of $26 million, on an annual basis, is distributed to the Municipal Equalization Fund held by CRIM to cover operating expenses and permanent improvements of the municipalities.

ii. An additional amount not exceeding $16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35 percent corresponding to the municipalities of the Commonwealth. When the accumulated municipal appropriations from the municipalities' Puerto Rico Health Reform are covered up to June 30, 1997, these resources will be assigned to the Health Insurance Administration, a component unit of the Commonwealth.

6. INTERFUND BALANCES

On July 1, 2001 the Municipality adopted the provisions of Statement No. 38, *Certain Financial Statement Note Disclosures, issued by the Governmental Accounting Standards Board.* This statement requires the disclosure of the flow of resources between funds and to assess the collectibles of inter-fund balances. Inter-fund balances at June 30, 2015 consisted of the following:

	Due From:				
	MAJOR FUND				
Due To:	GENERAL FUND	3,860,000.00 Loan Fund	SBGP Fund	OTHER NONMAJOR FUNDS	TOTAL
General Fund	$ -	$ -	$ -	$ 2,133,139	$ 2,133,139
SBGP	7,518	-	-	-	7,518
Other Nonmajor Fund	168,561	5,061	-	84,422	258,044
	$ 176,079	$ 5,061	$ -	$ 2,217,561	$ 2,398,701

At June 30, 2015 all amounts due among funds are considered collectible by the Municipality's management.

7. INTERGOVERNMENTAL RECEIVABLE AND PAYABLE

Due to other governmental units of the general fund for services rendered to the Municipality consists of the following:

	Mayor Fund	Other Governmental Fund	Total Governmental Fund	Statement of Net Assets
Intergovernmental receivable:				
Puerto Rico Electric Power Authority	$ 504,445	$ -	$ 504,445	$ 504,445
CRIM	-	-	-	170,610
Child Care	-	-	-	-
Department of Treasury of PR	-	-	-	30,918
Department of Labor(Ley 52)	-	-	-	-
Department of transportation(Convenio DTOP)	-	30,975	30,975	30,975
Total	504,445	30,975	535,420	736,948
Intergovernmental payable:				
General Govermental Services	132,830	-	132,830	132,830
Department of Treasury of PR	152,850	-	152,850	152,850
Employees Retirement System of the Government of Puerto Rico	118,298	-	118,298	118,298
Department of Labor	256,600	-	256,600	256,600
Puerto Rico Aqueduct and Sewer Authority	118,026	-	118,026	118,026
Govermental Development Bank		18,750	18,750	18,750
Puerto Rico Electric Power Authority	504,445	-	504,445	504,445
CRIM		-	-	-
Total	$ 1,283,049	$ 18,750	$ 1,301,799	$ 1,301,799

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8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013, was as follows:

	Balance at June 30, 2012	Additions	Reclassifications	Balance at June 30, 2013
COST BASIS:				
Cost basis of capital assets, not subject to depreciation and amortization:				
Infrastructure land	$ 1,568,294	$ -	$ -	$ 1,568,294
Construction in progress	111,629	108,810	(24,780)	195,659
Total cost basis of capital assets, not subject to depreciation and amortization	1,679,923	108,810	(24,780)	1,763,953
Cost basis of capital assets, subject to depreciation and amortization:				
Buildings, structures and building improvements	13,481,484	23,449	-	13,504,933
Infrastructure	9,251,580	99,405	24,780	9,375,765
Land Improvements	669,713	-	-	669,713
Licensed vehicles	2,436,880	562,623	-215,827	2,783,676
Furniture	509,407	3,300	-	512,707
Machinery and Equipment	975,547	14,342	-73,864	916,025
Total cost basis of capital assets subject to depreciation and amortization	27,324,611	703,119	(264,911)	27,762,819
Total cost basis of capital assets	$ 29,004,534	$ 811,929	$ (289,691)	$ 29,526,772

	Balance at June 30, 2012	Depreciation Amortization Expense	Reclassifications	Balance at June 30,2013
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Buildings, structures and building improvements	$ 2,588,997	$ 280,728	-	$ 2,869,725
Infrastructure	1,680,313	233,840	-	1,914,153
Land Improvements	669,713	-	-	669,713
Licensed vehicles	2,126,106	173,707	-215,827	2,083,986
Furniture	219,491	73,082	-	292,573
Machinery and equipment	794,044	118,338	-73,864	838,518
Total accumulated depreciation and amortization	8,078,664	879,695	(289,691)	8,668,668
CAPITAL ASSETS, NET	$ 20,925,870	$ (67,766)	$ -	$ 20,858,104

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8. CAPITAL ASSETS (continuation)

Depreciation and amortization expense was charged by functions in the accompanying government wide statement of activities as follows:

General government	$ 286,079
Public safety	24,626
Public housing and welfare	7,021
Culture, recreation and education	16,460
Urban and economic development	504,670
Health and sanitation	40,838
Total Depreciation and Amortization Expense	$ 879,695

9. DEFERRED REVENUES

Deferred revenues recorded in the accompanying GWFS and the GFFS are as follows:

A. General Fund:

Deferred revenue of $35,084 in the general fund is related to municipal license tax collected in fiscal Year 2012-13 that will be earned in fiscal year 2015-15.

B. Other Governmental funds:

Federal Government and other funds $447,212 – The deferred revenues presented in other Governmental funds represent the portion of federal grants received for which qualifying expenditures have not been incurred.

Program :	Amount
NSP	$ 3
SBGP	1,300
Section 8	20,207
Programas Federales	3,558
Adm Fee Fund	2,963
Tormenta Irene	121,768
Octubre 2005	43,897
Octubre 2010	77,887
Lluvias Mayo	7,609
Tormenta Jeanne	78,005
Asuntos Energeticos	305
COPS	819
Nutrition Program	35
Child Care	55,484
Child Care Food Program	40
Compra de Vehiculo	33,332
Total Deferred Revenue	$ 447,212

10. EMPLOYEES RETIREMENT SYSTEM

The Municipality's employees participate in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (the "System"). The System is the administrator of a multi-employer cost-sharing (as related to the Municipality's reporting entity) defined pension plan established by the Commonwealth.

The System was created under Act. No. 447 approved on May 15, 1951, as amended, and became effective on January 1, 1952. The System covers all regular employees of the Commonwealth and its instrumentalities, the Municipality and other municipalities of the Commonwealth.

The System is independent, thus assets may not be transferred to another system or used for any purpose other than to benefit each system's participants. The System issued publicly available financial reports that include its basic financial statements and required supplementary information for each of them, including required six-year trend information. Those reports may be obtained by writing to the administrator of the System.

The System provides for retirement, death and disability benefits. Death and disability retirement benefits are available to members for occupational and non-occupational death and disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after 10 years of plan participation.

Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS.

The annuity, for which a plan member is eligible, is limited to a minimum of $200 per month and a maximum of 75 percent of the average compensation.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension system ("System 2000"). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, had the option to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, are required to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as cash balance plan. Under this new plan, there is a pool of pension assets, which are invested by the System, together with those of the current defined benefit plan. Neither the Commonwealth nor the Municipality will guarantee benefits at retirement age. The annuity will be based on a formula which assumes that each year the employees' contribution (with a minimum of 8.275 percent of the employees' salary up to a maximum of 10.00 percent) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity U.S. Treasury Note; (2) earn a rate equal to 75 percent of the return of the System 2000's investment portfolio (net of management fees); or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances.

Disability pensions are not being granted under System 2000. The employer's contributions (9.275 percent of the employees' salary which is applicable to the Municipality) will be used to fund the current plan.

System 2000 reduced the retirement age from 65 years to 60 for those employees who joined the current plan on or later January 1, 2000.

Funding Policy:

Contribution requirements are established by law and are as follows:

A. Municipality:	11.275% of gross salary
B. Employees:	
1) Hired on or before March 31, 1990	5.775% of gross salary up to $6,600
	8.275 % of gross salary over $6,600
2) Hired on or after April 1, 1990	8.275% of gross salary

10. EMPLOYEES RETIREMENT SYSTEM (continuation)

During the fiscal year ended June 30, 2015 the employer's contributions paid by the Municipality to both retirement systems amounted to $548,285. On August 12, 2000, Act No. 174 was approved to allow certain participants of the ERS to be eligible for early retirement upon attaining at least age 55 with 25 years of service, provided they made their election on or before April 1, 2001.

Those who elected early retirement under this law will receive monthly benefits of 75 percent (if 25 or more years of service and age 55, or 30 or more years or services and age 50) or benefits of 65 percent (if 25 years of service by less than age 55) of their average compensation, which is computed based on the highest 36 months of compensation recognized by the System. In these cases, the employer (including the Municipality) is responsible for contributing to the System the amount needed to cover the benefit payments and employer contribution with respect to the participants covered until the participants reach the normal retirement age.

Historically, the Commonwealth has reported the System as a single-employer plan (as relates only to the financial reporting entity of the Commonwealth) in its comprehensive annual financial report. Accordingly, the Commonwealth will assume any actuarial deficiency that may exist or arise related to the Municipality's participating employees since the System does not allocate any actuarial deficiencies pertaining to municipal employees participating in the System. The Municipality is only required by law to make statutory contributions in the rates mentioned above. As a result, no net pension obligation nor net pension asset that may be allocable to the Municipality's participating employees, if any, has been recorded in the accompanying basic financial statements.

11. ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decisions useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

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

This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identified the methods and assumptions that should be used to project benefit payments discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

11. ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (continuation)

I were not allowed access to the management and the auditors of Employees Retirement System of the Commonwealth of Puerto Rico information used to determine the proportional share of the deferred outflows/inflows of resources, and net pension liability attribute to employees services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as deferred outflows/inflows of resources, liabilities and expenses as employees earn the rights to the pension plan benefits of the governmental activities. As result, I were unable to determine whether any adjustments, were necessary related to the Municipality of Maricao's deferred outflows/inflows of resources, liabilities, net position, and expenses of the governmental activities.

12. LONG-TERM DEBT

The Municipality's Legislature is legally authorized to determine the contracting of debts of the Municipality. Nevertheless, the laws and regulations of the Commonwealth also provide that:

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

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

In addition, before any new bonds or notes are issued, the revenues of the debt service fund should be sufficient to cover the projected debt service requirement. At June 30, 2015, the Municipality is in compliance with the debt limitation requirements.

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

	Balance at June 30, 2014, as restated	Borrowings or Additions	Payments or Deductions	Balance at June 30, 2015	Due Within One Year
Bonds Payable	$ 9,980,000	$ 490,000	$ (516,800)	$ 9,953,200	$ 618,700
Notes payable to:					
Act No. 42 - Financing agreement for the excess of property tax advances over collections through fiscal year 2000	3,073,121	-	(92,502)	2,980,619	98,314
Compensated Absences	855,437	-	(34,480)	820,957	313,957
Total	$ 13,908,558	$ 490,000	$ (643,782)	$ 13,754,776	$ 1,030,971

The Municipality issues general and special (public improvements) obligations bonds and notes to provide for the acquisition and construction of major capital facilities and equipment, as well as, to cover certain operating needs.

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12. LONG-TERM DEBT (continuation)

Long-term debt at June 30, 2015 is composed of the following debts:

General obligation bonds:		Outstanding Amount
2003 serial bonds due in annual installments ranging from $10,0000 to $50,000; plus interest due in semiannually installments at variable rates (5.00% to 7.25% at June 30,2012), trough July 1, 2028.	$	465,000
Serial bond approved under ordinance number 8, of 2009-10 due in semiannual. Installments ranging from $5,000 to $19,000 plus interest due in semiannually payments at variable rates (4.75% to 7.50%). Due in January 1, 2017.		125,000
Serial bond approved under ordinance number 5, 2009-10. Installments ranging from $5,000 to $19,000 plus interest at 4.37% until cancelation. This bonds due in 1/1/2017.		38,000
Serial bond approved under ordinance number 4, 2009-10. Required installments ranging from $15,900 to $20,500 through 1/1/2017; and semiannually interest payment calculated in 4.37%.		40,200
Serial bond approved under ordinance number 3, of 2011-12 due in semiannual. Installments ranging from $5,000 to $20,000 plus interest due in semiannually payments at variable rates (6.00% to 7.50%). Due in January 1, 2036.		200,000
Serial bond approved under ordinance number 3, of 2014-15 due in semiannual. Installments ranging from $55,000 to $85,000 plus interest due in semiannually payments at variable rates (7.00% to 7.50%). Due in January 1, 2021.		490,000
Subtotal General Obligations:	$	1,358,200
Public improvement bonds: (Sales tax)		
2008- Serial bond, original issued amount of $3,860,000 due in annually principal installments raging from $115,000 to $380,000, plus interest due in semiannually installment at variable rates from 1.53% to 7.50% at June 30, 2012 through July 1, 2025.	$	2,995,000
2008- Serial bond, original issued amount of $160,000 due in annually principal installments raging from $5,000 to $10,000, plus interest due in semiannually installments at variable rates from1.53% to 7.50% at June 30, 2012 through July 1, 2023.		110,000
2008- Serial bond, original issued amount of $870,000 due in annually principal installments raging from $70,000 to $110,000, plus interest due in semiannually installments at variable rates from 1.53% to 7.50% at June 30, 2012 through July 1, 2018.		360,000
2010- Serial bond, original issued amount of $880,000 due in annually principal installments raging from $50,000 to $380,000, plus interest due in semiannually installment at variable rates from 1.53% to 7.50% at June 30, 2012 through July 1, 2018.		790,000
2012- Serial bond, original issued amount of $280,000 due in annually principal installments raging from $30,000 to $50,000, plus interest due in semiannually installment at variable rates from 6.00% to 7.50% at June 30, 2012 through July 1, 2017.		140,000
2012- Serial bond, original issued amount of $3,725,000 due in annually principal installment raging from $50,000 to $310,000, plus interest due in semiannually installment at variable rates from 6.00% to 7.50% at June 30,2012 through July 1, 2035.		3,480,000
Subtotal public improvement bonds:	$	7,875,000
Operational bonds payable		
2002 Serial bonds due in annual principal installments raging from $10,000 to $80,000; plus interest due in semiannually installments at variable rates 1.28% to 6.00% at June 30, 2003 through July 1, 2026.		720,000
Total bonds	$	9,953,200
Notes payable to CRIM (Law 42)		
2001 operating loan with the Department of Treasury due in monthly principal installments ranging from $3,566 to $23,358; which includes implicit interest due in monthly installments at 6.30% through July 1, 2033.		2,980,619
Provision for accrued compensated absence		820,957
Total bonds, note payable and compensated absence	$	13,754,776

12. **LONG-TERM DEBT (continuation)**

Notes payable to CRIM (Law 42)

Compensated Absences

At june 30, 2015 the liability for compensated absence is composed as follows:

	Due within one year	Due after one year	Total
Vacations	$ 177,525	$ 77,231	$ 254,756
Sick leave	136,432	429,769	566,201
Compensatory	-		-
Total	$ 313,957	$ 507,001	$ 820,957

Provision for accrued compensated absence 820,957

The principal and interest maturities for the general obligation bonds of the Municipality of Maricao at June 30, 2015 are as follows:

Year ended June 30	Principal	Interest	Total
2016	618,700	416,710	1,035,410
2017	644,500	666,878	1,311,378
2018	645,000	619,009	1,264,009
2019	570,000	572,494	1,142,494
2020	555,000	521,125	1,076,125
2021-2025	3,120,000	1,991,556	5,111,556
2026-2030	1,995,000	979,519	2,974,519
2031-2036	1,460,000	406,875	1,866,875
2036-2040	345,000	14,438	359,438
	$ 9,953,200	$ 6,188,604	$ 16,141,804

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12. LONG-TERM DEBT (continuation)

The principal and interest maturities for the Notes payable to CRIM (Law 42) of the Municipality of Maricao at June 30, 2015 are as follows:

Year ended June 30	Principal	Interest	Total
2016	98,314	182,928	281,242
2017	104,491	176,751	281,242
2018	111,057	170,186	281,242
2019	118,035	163,208	281,242
2020	125,451	155,791	
2021-2025	755,874	650,337	1,406,211
2026-2030	1,025,115	381,096	1,406,211
2031-2036	642,283	49,822	692,105
	$ 2,980,619	$ 1,930,118	$ 4,629,496

13. COMMITMENTS AND CONTINGENCIES

A. CLAIMS AND JUDGMENTS

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims.

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

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, every one of the probable claims against the Municipality the final outcome will be covered by the insurance because are under de $75,000.

B. FEDERAL GRANTS

In the normal course of operations, the Municipality receives grants from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

13. COMMITMENTS AND CONTINGENCIES (continuation)

C. CONSTRUCTION - COMMITMENT

The Municipality had several outstanding or planned construction projects as of June 30, 2015. These projects are evidenced by contractual commitment with contractors. The construction projects of the Municipality are commitments of the Capital Projects' funds that amount to $392,700.

14. SUBSEQUENT EVENT

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through December 17, 2015, which is the date these financial statements were available to be issued.

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Budgetary Comparison Schedule – General Fund
June 30, 2015

	Budgeted Amounts		Basis)	Positive
	Original	Final	(See Note 1)	(Negative)
Revenues:				
Property taxes	$ 4,096,866	$ 4,096,866	$ 4,096,866	$ -
Municipal sales tax	325,000	325,000	862,388	537,388
Municipal license taxes	321,436	321,436	255,530	(65,906)
Charges for services	1,800	1,800	2,813	1,013
Intergovernmental grants and contributions	614,445	614,445	598,179	(16,266)
Investments earnings	9,000	9,000	40,534	31,534
Miscellaneous	458,700	458,700	452,663	(6,037)
	$ 5,827,247	$ 5,827,247	$ 6,308,973	$ 481,726
Expenditures:				
General government	$ 2,591,636	$ 2,640,814	$ 2,283,894	$ 356,920
Public safety	469,120	417,242	411,655	5,587
Enviromental control	2,206,086	2,244,986	2,240,385	4,601
Health	282,670	282,670	297,574	(14,904)
Culture, recreation and education	205,689	183,489	178,564	4,925
Public housing and welfare	72,046	58,046	54,467	3,579
	$ 5,827,247	$ 5,827,247	$ 5,466,539	$ 360,708

Explanation of Differences:

Sources/inflows of financial resources:	
Actual amounts (budgetary basis) "available for appropriations" from the budgetary comparison schedule	$ 6,308,973
Differences - budget basis to GAAP:	
Sales tax	(501,384)
Other - timing diference	25,163
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	5,832,752
Uses/outflows of financial resources:	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 5,466,539
Differences - budget basis to GAAP:	
Functional expenses fund merge with general fund	(260,085)
Increase in debt with governmental entity	-
Timing Difference between encumbrances and modified accrual	(30,263)
Others	-
Total expenditures as reported on the statement of reve and changes in fund balances - governmental funds	$ 5,176,191

The accompanying notes to the basic financial statements are an integral part of this schedule.

NOTE 1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

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

The Municipality prepares its annual budget including the operations of the general fund.

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

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

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Schedule of Expenditures of Federal Awards
June 30, 2015

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	EXPENDITURES
US DEPARTMENT OF AGRICULTURE		
Direct Programs		
Water and Waste Disposal System for Rural Communities	10.760 MP	$ 436,090
		436,090
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs		
Section 8 Vouchers and Portability	14.871 MP	142,817
Indirect Program		
Pass through PR Office of Municipal Affairs State Block Grant Program (SBGP)	14.228 MP	903,758
Neighborhood Stabilization Program	14.264	15,481
Total HUD		1,062,056
US DEPARTMENT OF HEALTH AND HUMAN SERVICE		
INDIRECT PROGRAM:		
Passed trough ACUDEN Office San Juan Puerto Rico		
Child Care and Development Block Grant	93.575	93,052
		93,052
US DEPARTMENT OF HOMELAND SECURITY		
Direct Programs:		
Public Disaster Assistance	97.036	78,500
US DEPARTMENT OF ENERGY		
Direct Program		
Energy Efficiency and Conservation Block Grant (Recovery Act Fund)	81.128	10
TOTAL FEDERAL FINANCIAL ASSISTANCE		$ 1,669,708

MP Major Program

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Note to Schedule of Expenditures of Federal Awards
June 30, 2015

(1) GENERAL

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

(2) MAJOR FEDERAL AWARDS

CFDA Number(s)	Name of Federal Program or Cluster
14.228	State Block Grant Program (SBGP)
10.760	Water and Waste Disposal System for Rural Communities
14.871	Section 8 Voucher and Portability

(3) FEDERAL CFDA NUMBER

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

(4) RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

Description	Hud Programs	Department of Agriculture	Other funds	Total
Federal Programs Expenditures	$ 1,062,056	$ 436,090	$ 171,562	$ 1,669,708
TOTAL	**$ 1,062,056**	**$ 436,090**	**$ 171,562**	**$ 1,669,708**

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Municipality of Maricao, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Municipality of Maricao's basic financial statements, and have issued my report thereon dated December 17, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Municipality of Maricao's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as mentioned in items 2015-01 and 2015-02.

Mailing Address Box 757, Dorado, PR 00646

Purpose of this Report

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

Juan A. Rivera, CPA
Lic. #2214

Toa Baja, Puerto Rico
December 17, 2015

Stamp No. **O2726704** of Puerto Rico Society of Certified Public Accountants was affixed to the original report.

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Honorable Major and Member
Of the Municipal Legislature
Municipality of Maricao
Maricao, Puerto Rico

Report on Compliance for Each Major Federal Program

I have audited Municipality of Maricao'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 Maricao's major federal programs for the year ended June 30, 2015. Municipality of Maricao's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 which are described in the accompanying schedule of findings and questioned costs as items 2015-01 and 2015-02. Our opinion on each major federal program is not modified with respect to these matters.

Municipality of Maricao's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs.

Report on Internal Control over Compliance

Management of Municipality of Maricao is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Municipality of Maricao'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, I do not express an opinion on the effectiveness of Municipality of Maricao'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.

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

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

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

I have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Municipality of Maricao as of and for the year ended June 30, 2015, and the notes to the financial statements which collectively comprise Municipality of Maricao's basic financial statements. I issued my report thereon dated December 17, 2015, which contained an unmodified opinion on those financial statements. My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Juan A. Rivera, CPA
Lic. #2214

Toa Baja, Puerto Rico
December 17, 2015

Stamp No. **O2726705** of Puerto Rico Society of Certified Public Accountants was affixed to the original report.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
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: unqualified opinion

Internal Control over financial reporting:

Material weakness (es) identified? ____ yes _X_ no

Significant Deficiency (ies) identified that are Not considered to be material weakness? _X_ yes ___ none reported

Noncompliance material to financial statements noted? ____ yes _X_ no

Federal Awards

Internal Control over major programs:

Material weakness (es) identified? ____yes _X_ no

Significant deficiency (ies) identified that are Not considered to be material weakness? ____yes _X_ none reported

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

Any audit findings disclosed that are required To be reported in accordance with section 510 (a) of Circular A-133 ___ yes _X_ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.228	SBGP
14.871	Section 8 (Housing Choice Voucher)
10.760	Water and Waste Disposal System for Rural Communities

Dollar threshold used to distinguish between type A and B programs: $300,000

Auditee qualified as low-risk auditee ____ yes _X_ no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II – Schedule of Financial Statements Findings and Questioned Costs

Program: General Fund
Accounting and Reporting System
Year ended June 30, 2015

Ref. No. / Finding / Noncompliance	Questioned Cost
2015-01 Statement of Condition	-0-

During the performance of our audit procedures the following exceptions were noted:

- The Municipality's accounting system provides only for the recording of revenues, expenditures and other limited transactions. In addition, the accounting records are not integrated and do 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 and residual equities or balances, and changes therein. Additionally, we noted that certain records in use were not adequately maintained.
- Accounting records do not provide for segregation between expenditures and encumbrances.
- The Accounting System did not recognized expenditures that were not included as expenditures in the budget, such as bank charges, penalties and interests to State and Governmental Entities.
- The Budget's Accounting System made disbursements, over the budgeted limits amounts.
- The Accounting System did not maintain records of balances in due to and due from accounts between funds.

Criteria

A municipality's accounting system must make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with accounting principles generally accepted in the United States of America and determine and demonstrate compliance with finance, legal and contractual provisions as established in the Autonomous Municipalities' Law Chapter 215§ 4360.

Cause

The Municipality of Maricao has not established the accounting procedures, controls and records necessary to provide accurate information to prepare the financial statements and federal reports in conformity with accounting principles generally accepted in the United States of America, the governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB), and the related grant agreements.

Effect

Due to the deficiencies mentioned above, the examination of the general-purpose financial statements for the year ended June 30, 2015, was more difficult and less efficient than would have been in ordinary circumstances.

Since the accounts and other records are not designed to provide the information as it is presented in the financial statements, was necessary to obtain such information from various departments and persons within the Municipality and from numerous accounting records, which are not integrated. This situation can cause the financial statements not to present all the assets, liabilities, revenues and expenditures of the Municipality.

Recommendation

In order to streamline the accounting and reporting systems and provide proper closing of records and adequate and timely information, I recommend the Municipality to establish an internal control over the accounting system in order to provide for the following:

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Program: General Fund
Accounting and Reporting System
Year ended June 30, 2015

Ref. No. / Finding / Noncompliance	Questioned Cost
2015-01 Statement of Condition (continuation)	-0-

Accounting and Reporting System

- Adequate training to all accounting personnel in order to improve the understanding of the system.
- The implementation of a double entry accounting system and the integration of all subsidiary ledgers.
- The preparation of periodic financial reports to be submitted to the Finance Director, the Mayor and the Municipal Assembly.
- Reconciliation of financial with the reports prepared and submitted to the Federal government, and the preparation of the general purpose financial statements in accordance to Accounting principles generally accepted in the United State of America.

Auditee Response

A new accounting system has been implemented for the first quarter of 2015 by the Municipality. The Director of Finance is making all efforts in order have the system fully in function by the end of this fiscal year.

Program: General Fund
Accounting and Reporting System
Year ended June 30, 2015

Ref. No. / Finding / Noncompliance	Questioned Cost
2015-02 Statement of Condition	-0 -

The Municipality obtained funds from the Central Government and included them in Annual Budget, but at the time of receiving the funds they were deposited into Special Funds.

Criteria

In the Article 7.001 of the Law 81, as amended, establish that the Municipality will set a self-balanced budget of income and expenditures. In the revised regulations on Fundamental Standards of the Municipalities of Puerto Rico, a similar provision is established.

Cause

In General Fund, the Municipality budgeted $112,000 of allocations from the Central Government for operating expenses of the Municipality. However, when the Municipality received the funds, they were deposited in the Special Funds.

Effect

The Municipality does not follow the procedures established by state law. It created an operational deficit of $112,000 in General Fund.

Recommendation

Establish procedures to identify money received and deposit it in the appropriated fund according to budget.

Auditee Response: The Mayor gave appropriate instructions to attend this recommendation immediately

Section III – Federal Awards Findings and Questioned Costs

No findings were detected

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF MARICAO
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended June 30, 2015

Program	Finding/ Compliance	Status
	Condition 10-01:11-01;12-01;13-01;14-01 Accounting and Reporting System During the performance of our audit procedures the following Exceptions were noted:	
General Fund	The Municipality's accounting system provides only for the recording of revenues, expenditures and other limited transactions. In addition, the accounting records are not integrated and do 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 and residual equities or balances, and changes therein. Additionally, we noted that certain records in use were not adequately maintained. Accounting records do not provide for segregation between expenditures and encumbrances	Still prevail
General Fund	**Condition 10-03;11-02;12-02;13-02;14-02 - Accounting And Reporting System** The Municipality obtained funds from the Central Government and included them in Annual Budget, but at the time of receiving the funds they were deposited into Special Funds.	Still prevail