

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

**MUNICIPIO DE MAUNABO  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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Oficina del Comodoro  
de Asesorías Municipales  
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**BASIC FINANCIAL STATEMENTS WITH ADDITIONAL REPORTS AND  
INFORMATION REQUIRED BY THE SINGLE AUDIT ACT**

***FOR THE FISCAL YEAR ENDED JUNE 30, 2015***

**HON. JORGE L. MARQUEZ PEREZ  
MAYOR**

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

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

FISCAL YEAR ENDED JUNE 30, 2015

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COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

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

FISCAL YEAR ENDED JUNE 30, 2015

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**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of the  
Municipal Legislature and People of the  
Municipality of Maunabo  
Maunabo, Puerto Rico

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, of the Municipality of Maunabo of the Commonwealth of Puerto Rico (The Municipality), each major fund, and the aggregate remaining fund information of 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. We also have audited the accompanying Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund of the Municipality for the fiscal year then ended, which is presented as part of the basic financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

**INDEPENDENT AUDITOR'S REPORT**  
**(Continued)**

***Auditor's Responsibility (Continued)***

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

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

**Basis for Adverse Opinion on Governmental Activities**

- A. As described in Notes 1 and 17 to the financial statements, the Municipality did not have a complete, updated and accurate records of capital assets principally infrastructure assets. Accounting Principles Generally Accepted in the United States of America require that capital assets additions be capitalized and depreciated over their estimated useful lives, which would increase the assets, net position and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.
- B. As discussed in Notes 1 and 17 to the basic financial statements, the Municipality has not implemented the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. Accordingly,
  - 1. The Municipality has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and,
  - 2. The Municipality has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting Principles Generally Accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses of the governmental activities. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses of the governmental activities has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by Accounting Principles Accepted in the United States of America.

**INDEPENDENT AUDITOR'S REPORT**  
**(Continued)**

***Adverse Opinion***

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraphs, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Municipality of Maunabo of the Commonwealth of Puerto Rico, as of June 30, 2015, or the changes in financial position thereof for the year then ended.

***Unmodified Opinion***

In our opinion the financial statements referred to above present fairly, in all material respect, the respective financial position of each major fund, and the aggregate remaining fund information of the Municipality of Maunabo as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

***Other Matters***

*Required Supplementary Information Omitted*

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

*Required Supplementary Information*

Accounting Principles Generally Accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information on pages 5-14 and 56-61 and the Schedule of Funding Progress Employees' Retirement System by the Commonwealth of Puerto Rico and its instrumentality be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with Auditing Standards Generally Accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**INDEPENDENT AUDITOR'S REPORT**  
(Continued)

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2016, on our consideration of the Municipality of Maunabo as of the Commonwealth of Puerto Rico internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on 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* is considering the Municipality's internal control over financial reporting and compliance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Municipality of Maunabo of the Commonwealth of Puerto Rico's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with Auditing Standards Generally Accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as whole.

*Nieves Velazquez & Co., P.S.C.*

NIEVES VELAZQUEZ & CO., P.S.C.  
San Juan, Puerto Rico  
March 4, 2016

Stamp No. 02725854 of the Puerto Rico Society of Certified Public Accountants has been affixed to the original of this report.



**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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The management of **Municipality of Maunabo**, Puerto Rico (**Municipality**) offers this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2015. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, and much of the information is comparable to prior year. This MD&A should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

This MD&A is prepared in order to comply with the reporting model required by Governmental Accounting Standards Board Statement No. 34 and, among other purposes, to provide the financial statements users with the following major information:

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

#### **FINANCIAL HIGHLIGHTS**

The following are key financial highlights for the fiscal year:

- ❖ The assets of the Municipality exceeded its liabilities at June 30, 2015 by \$6,023,208, and at June 30, 2014 by \$6,836,365;
- ❖ The Municipality's total net position decrease by \$813,157 during fiscal year 2014-2015;
- ❖ As of June 30, 2015, the Municipality's governmental funds reported combined ending fund superavit of \$435,314, a decrease of \$265,575 from the prior year;
- ❖ At June 30, 2015, the unrestricted deficit was \$11,231,462;
- ❖ Loans principal payments were \$637,000 and \$662,000 in 2015 and 2014, respectively.

#### **USING THIS ANNUAL REPORT**

This annual report consists of three components: 1) Management Discussion and Analysis (this section), 2) Basic Financial Statements, and 3) Required Supplementary Information.

#### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Municipality's financial statements. The Municipality's basic financial statements comprise three components: Government-Wide Financial Statements; Fund Financial Statements; and Notes to the Financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Government-Wide Financial Statements are composed of: (1) the Statement of Net Positions and (2) the Statement of Activities. These financial statements can be found immediately following this MD&A. The government-wide financial statements are designed to provide readers with a broad overview of the Municipality's finances, in a manner similar to a private-sector business.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)**

The purpose of the statement of net positions is to attempt to report all assets owned and all liabilities owed by the Municipality. The Municipality reports all of its assets when it acquires ownership over the assets and reports all of its liabilities when they are incurred. For example, the Municipality reports buildings and infrastructure as assets, even though they are not available to pay the obligations incurred by the Municipality. On the other hand, the Municipality reports liabilities, such as claims and judgments, bonds and notes payable, obligations under capital leases, compensated absences and certain accounts payable and accrued liabilities, even though these liabilities might not be paid until several fiscal years into the future.

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

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

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

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

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

Both of the government-wide financial statements of the Municipality are principally supported by taxes and intergovernmental revenues. The governmental activities of the Municipality include; mayor and municipal legislature, general government, public safety, public works, culture and recreation, health and sanitation, human services and welfare, urban development, education and interests. Property taxes, volume of business taxes, sales taxes, and state and federal grants finance most of these activities.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**FUND FINANCIAL STATEMENTS**

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

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

**GOVERNMENTAL FUNDS**

The Municipality's basic services are reported in the government fund financial statements. The government funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government'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 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 government's near-term financing decisions.

The Municipality adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information containing budget to actual comparisons for the general and major funds.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**GOVERNMENTAL NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The net position of the Municipality decreased by \$813,157 during the current fiscal year. The Municipality's net position includes investments in Capital Assets for \$14,536,939, net of related debt. The Municipality's net position at the end of the fiscal year ended on June 30, 2015 was \$6,023,208, as detailed on **Table 1**.

<b>Table 1</b>		
<b>Statement of Net Position</b>	<b>2015</b>	<b>2014</b>
Current and non-current assets	\$ 8,670,814	\$ 6,214,222
Capital assets	23,474,939	24,098,365
<b>Total Assets</b>	<b>32,145,753</b>	<b>30,312,587</b>
Current liabilities	7,247,350	4,526,183
Long-term liabilities	18,841,068	18,950,039
<b>Total Liabilities</b>	<b>26,088,418</b>	<b>23,476,222</b>
<b>Deferred Inflows of Resources</b>	<b>33,127</b>	<b>-</b>
Net position:		
Investment in capital assets, net of related debt	14,536,939	12,533,365
Restricted	2,717,731	3,884,335
Unrestricted deficit	(11,231,462)	(9,581,335)
<b>Total Net Position</b>	<b>\$ 6,023,208</b>	<b>\$ 6,836,365</b>

The largest portion of the Municipality's net positions reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Municipality's net positions represents resources that are subject to external restrictions on how they may be used.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**GOVERNMENTAL ACTIVITIES**

Governmental activities decreased the Municipality's net positions. Key elements of this decrease are as follows: the Municipality's governmental activities had net expenses of \$10,812,992. However, these services are intended to be primarily funded by taxes, as opposed to charges for services and grants, and those taxes and other general revenues did not exceed net expenses by \$813,157.

The following schedule (as detailed on **Table 2**) presents the revenues and expenses for the current fiscal year:

<b>Table 2</b>			
<b>Statement of Activities (in thousands)</b>	<b>2015</b>	<b>2014</b>	
Revenues			
Operating grants and contributions	\$ 8,598,536	\$ 4,726,035	
Capital grants and contributions	1,969,980	2,470,146	
General revenues:			
Property taxes	1,012,586	1,196,102	
Volume of business taxes	174,567	148,236	
Sales taxes	1,062,664	989,333	
Construction Excise tax	138,136	52,366	
Intergovernmental	6,772,103	6,979,606	
Charges for services	506,202	1,165,568	
Other General revenues	839,779	48,006	
Total revenues	<u>21,074,553</u>	<u>17,775,398</u>	
Expenses			
Mayor and Municipal Legislature	238,465	242,453	
General Government	6,323,438	3,965,144	
Public safety	497,070	536,109	
Public works	1,894,220	3,459,448	
Health and sanitation	2,257,753	2,223,502	
Culture and recreation	592,487	593,454	
Human services and welfare	1,944,624	1,992,135	
Urban development	1,425,266	1,496,057	
Education	6,020,270	3,158,289	
Interest on long-term debts	694,117	684,571	
Total expenses	<u>21,887,710</u>	<u>18,351,162</u>	
Changes in net position	(813,157)	(575,764)	
Net position – beginning	<u>6,836,365</u>	<u>7,412,129</u>	
<b>Net position – ending</b>	<b><u>\$ 6,023,208</u></b>	<b><u>\$ 6,836,365</u></b>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS**

The Municipality uses fund accounting to ensure and demonstrate compliance with related legal and contractual requirements.

<b>Table 3</b>			
<b>Balance Sheet (in thousands)</b>	<b>2015</b>	<b>2014</b>	
<b>Assets:</b>			
Total assets – Major Funds	\$ 7,318,570	\$ 4,924,533	
Total assets – Other Funds	2,128,228	1,994,596	
Combined total assets	<u>9,446,798</u>	<u>6,919,129</u>	
<b>Liabilities:</b>			
Total liabilities – Major Funds	7,490,200	5,208,439	
Total liabilities – Other Funds	1,488,157	1,009,801	
Combined total liabilities	<u>8,978,357</u>	<u>6,218,240</u>	
<b>Deferred Inflows of Resources:</b>			
Total Inflows – Major Funds	<u>33,127</u>	<u>-</u>	
<b>Fund Balances (As Restated):</b>			
Restricted	2,390,579	2,710,669	
Committed	(359,379)	186,516	
Unassigned	<u>(1,595,886)</u>	<u>(2,196,296)</u>	
Combined total fund balances	<u>435,314</u>	<u>700,889</u>	
<b>Total liabilities and fund balances</b>	<b><u>\$ 9,446,798</u></b>	<b><u>\$ 6,919,129</u></b>	

<b>Table 4</b>			
<b>Changes in Fund Balances (in thousands)</b>	<b>2015</b>	<b>2014</b>	
<b>Revenues:</b>			
Total revenues – Major Funds	\$ 14,801,417	\$ 13,082,395	
Total revenues – Other Funds	6,306,261	4,726,926	
Combined total revenues	<u>21,107,678</u>	<u>17,809,321</u>	
<b>Expenditures:</b>			
Total expenditures – Major Funds	14,865,901	14,133,146	
Total expenditures – Other Funds	6,507,352	4,697,194	
Combined total expenditures	<u>21,373,253</u>	<u>18,830,340</u>	
<b>Other financing sources (uses):</b>			
Proceed from issuance of bonds	-	2,820,000	
Transfer – In	2,416,171	1,185,389	
Transfer – Out	<u>(2,416,171)</u>	<u>(1,185,389)</u>	
Combined other financing sources (uses), net	<u>-</u>	<u>2,820,000</u>	
Net changes in fund balance	(265,575)	1,798,981	
Fund Balance – beginning, as restated	<u>700,889</u>	<u>(1,098,092)</u>	
<b>Fund Balance – ending</b>	<b><u>435,314</u></b>	<b><u>700,889</u></b>	

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**GOVERNMENT FUNDS**

The Municipality's Governmental Funds information is useful in assessing the Municipality's financial requirements. At the end of the fiscal year any resource available for spending should be measured by the unassigned fund balance. In the current fiscal year, the Municipality's Governmental Funds reported an ending superavit of \$435,314.

Restricted fund balance is to cover balances show as follows:

- \$999,450 are restricted to indicate that it is not available for new spending because it has already been segregated;
- \$1,134,584 are restricted to pay debt services;
- \$256,575 are restricted to pay debt services from general fund.

The Municipality's Governmental Funds include the General Fund, which is the major operation fund of the Municipality and as of June 30, 2015, it showed an unassigned deficit of \$1,595,886. This deficit was caused by the excess of expenditures over revenues during the past years. In the Other Governmental Funds, it showed a committed deficit of \$359,379 that which was caused by the excess of expenditures over revenues in the Municipal Hospital Fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**INVESTMENT IN CAPITAL ASSETS**

The Municipality's investment in capital assets for its governmental type activities as of June 30, 2015 amounted to \$23,474,939 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, parks, roads, and bridges. **Table 5** present the major classes of capital assets (net of accumulated depreciation):

<b>Table 5</b>	
<b>Capital Assets</b>	<b>Amount</b>
Construction in progress	\$ 12,820,950
Works of art	90,000
Land	952,313
Depreciable capital assets	<u>9,611,676</u>
<b>Total Assets</b>	<b><u>\$ 23,474,939</u></b>

**REAL ESTATE HELD FOR SALE**

On July 6, 2009, the Municipality enter into an agreement with the Commissioner of Municipal Affairs to participated in a construction of a eight apartments building, for low and very low income families, financed with funds provided by the Federal program CDBG- Neighborhood Stabilization Program. At June 30, 2015, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted \$987,150.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**LONG-TERM DEBT**

At June 30, 2015, the Municipality had a total of \$18,841,068 in general obligations and others outstanding debts, as shown in **Table 6**. Of this amount, \$13,110,000 comprises debt backed by the full faith and credit of the government and \$5,731,068 are other obligations.

<b>Table 6</b>	
<b>Long Term Debts</b>	<b>Amount</b>
General obligations	\$ 13,110,000
Section 108 Guaranteed Loan	1,998,000
Others	<u>3,733,068</u>
<b>Total Long Term Debts</b>	<b><u>\$ 18,841,068</u></b>

The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality in order for the bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave, debt agreements, advances of property taxes and others. More detailed information about the Municipality's long-term liabilities is presented in the notes to the financial statements. The Municipality continues to meet its financial needs through prudent use of its revenues and creative debt financing programs.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

The Budgetary Comparison Schedule - General Fund shows the original adopted budget, the final revised budget, actual results, and variances between final and actual budgeted amounts for the General Fund. An original budget is presented by the Mayor and approved by the Municipality's Legislative Body in an ordinary session, but it may be revised for various reasons and circumstances, or due to unanticipated budgeted issues that arise during the normal course of the fiscal year.

**ECONOMIC FACTOR AND NEXT YEAR'S BUDGETS**

The Municipality relies primarily on Intergovernmental Revenues as well as Federal Financial Assistance to carry out the Governmental Activities. Historically, these amounts have been predictable for every fiscal year, providing the Municipality with yearly increases. Federal Financial Assistance may vary if new grants are available, but revenue is also predictable.

Local, national and international economics factors may influence the Municipality's revenues, positively or negatively. Positive economic growth is correlated with increased revenues from property taxes, volume of business tax, charges for services, as well as State and Federal Grants. In a local economy, the growth may be monitored by a variety of indicators such as employment growth, unemployment, new constructions, assessed valuation, and other revenues.

All these factors will be considered when preparing the budget for the year ending on June 30, 2015, as well as the increases in property and volume of business tax rates that will be in effect for that fiscal year.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**FINAL COMMENTS**

• **Implementation of Acts No. 18 and No. 19 of 2014**

The dispositions established by Acts No. 18 and No. 19 of 2014 related to the municipal sales and use tax became effective on July 1, 2014. The most significant changes are the creation of the Municipal Finance Corporation (COFIM) and, for the municipalities covered by these Acts, the new collection method of the 1% municipal sales and use tax and the establishment of a monthly advances system for the transfers of the .2% destined for the Municipal Development Fund (FDM) and of the .2% related to the Municipal Redemption Fund (FRM).

For those municipalities that signed the agreement to be covered by these Acts (including the Municipality of Santa Isabel), the transfers to be made by the Governmental Development Bank (GDB) of the .2% destined for the FDM and of the .2% related to the FRM will be based on a system of monthly advances: each month the GDB will make the FDM and FRM transfers based on the amounts collected that same month in the preceding fiscal year (2013-2014). At the end of the year, a settlement will be made comparing the actual collections of the FDM and FRM with the monthly advances made to each municipality.

If actual collections exceed the total advances received, an account receivable from GDB will be recognized; if actual collections are less than the total advances, a payable to the GDB will be recognized and amortized through withholdings from future advances. For municipalities not covered by these Acts, the monthly transfers will be made based on actual collections.

As stated in Act No. 19, the 1% corresponding to the municipalities' sales and use tax will be deposited in COFIM. From these funds COFIM will deposit to the COFIM's sinking fund the greater of: .3% of the 1% municipal sales and use tax or an Annual Rental Fee (RFA). The RFA for fiscal year 2014-2015 will be \$65,541,281 and, thereafter, 1.5% of the RFA of the preceding fiscal period. The excess of the required deposit to the COFIM's sinking fund (.7% of the 1% of the municipal sales and use tax) will be transferred to the general fund of municipalities covered by the agreement or to the FRM as decided by the municipality. Before the transfer of the .7% to the municipalities covered by the Act, COFIM will transfer the 1% municipal sales and use tax to the municipalities not covered by the Act.

On September 1, 2014, the sixteen municipalities that collect their sales and use tax through the P.R. Department of Treasury (Aguadilla, Aibonito, Arroyo, Barranquitas, Ciales, Culebra, Hatillo, Juncos, Lajas, Lares, Maricao, Maunabo, Naguabo, Patillas, Peñuelas and Rincón) began participating on a pilot program for the collection of the 1% municipal sales and use tax through COFIM. In this program, a standard monthly sales and use tax return was created to be used by the retailers of these municipalities. The monthly returns were filed in the bank branches of the financial institution designated by COFIM to be its intermediary, the Popular Bank of Puerto Rico (BPPR, by its acronyms in Spanish). BPPR would electronically process the returns and submit their data to COFIM. However, beginning November 1, 2014, the retailers also had the option of using COFIM's internet portal to electronically file and pay the return.

However, for those municipalities that voluntary decided to use COFIM's internet portal or collection process through the BPPR, their implementation date was December 1, 2014. For those municipalities that want to be certified as collection agents for COFIM, the implementation date is January 1, 2015. As collection agents for COFIM, the retailers of these municipalities have the option of filing and paying the monthly sales and use tax in the municipality's Collection Office. The Collection Office's personnel have the responsibility to deposit the daily sales and use tax collections in the bank account designated by COFIM, and also submit electronically the returns' data to the agency for processing in COFIM's data base.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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**FINAL COMMENTS (CONTINUED)**

- **Implementation of Act No. 57 of May, 2014 Puerto Rico Energetic Transformation and Relief Act**

On May 22, 2014, the Commonwealth Legislature approved Act No. 57 that includes the adoption of an aggressive public policy of energy conservation and use by the Public Sector facilities. Said Act established, among other things, a significant amendment to the actual calculation of the Annual Contribution in Lieu of Taxes that the Puerto Rico Electric Power Authority (PREPA) must pay to the Municipalities. This amendment includes: (1) A mechanism to achieve efficiency in the energy used by the municipalities, by establishing a maximum base amount on the annual energy consumption; (2) An special incentive to all municipalities that comply with the base amount determined as the maximum annual energy consumption; and (3) A uniform formula to calculate the maximum base amount of annual consumption that will be measured in a three-year interval. Said Act delegated the oversight and regulatory functions to the State Office of Energetic Public Policy and to the Energy Regulatory Commission. These changes will apply to the fiscal year 2014-2015.

Management has evaluated subsequent events through December 15, 2015, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or additional disclosure as of June 30, 2015.

**CONTACTING THE MUNICIPALITY'S OFFICE OF FINANACIAL MANAGEMENT**

This report is designed to provide a general overview of the Municipality's finances and to demonstrate the accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finances Department at (787) 861-0825.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**STATEMENT OF NET POSITION  
June 30, 2015**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash	\$ 422,523
Cash with Fiscal Agent	2,063,092
Receivables (net):	
Property Tax	25,417
Sales Tax	6,389
Intergovernmental	54,000
Federal Grants	5,109,444
Others	2,799
	7,683,664
Real Estate Held for Sale	987,150
Capital Assets:	
Land, Work of Arts, and Construction in Progress	13,863,263
Other Capital Assets, Net of Depreciation	9,611,676
Total Capital Assets	23,474,939
<b>TOTAL ASSETS</b>	<b>32,145,753</b>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Expenses	5,775,551
Bonds Payable	430,000
Accrued Interest	210,178
Due to Governmental Units	479,845
Unearned Revenues	352,776
Long-Term Liabilities:	
Due within One Year	1,183,610
Due in More than One Year	17,657,458
<b>TOTAL LIABILITIES</b>	<b>26,089,418</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>33,127</b>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	14,536,939
Restricted for:	
Debt Service	1,134,584
Others Purposes	1,583,147
Unrestricted	(11,231,462)
<b>TOTAL NET POSITION</b>	<b>\$ 6,023,208</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Mayor and Municipal Legislature	\$ 238,465	\$ -	\$ -	\$ -	\$ (238,465)
General Government	6,323,438	831	-	-	(6,322,607)
Public Safety	497,070	-	217	-	(496,853)
Public Works	1,894,220	-	69,483	-	(1,824,737)
Culture and Recreation	592,487	-	205,000	-	(387,487)
Health and Sanitation	2,257,753	505,371	695,498	-	(1,056,884)
Human Services and Welfare	1,944,624	-	1,219,937	-	(724,687)
Urban Development	1,425,266	-	341,310	1,969,980	886,024
Education	6,020,270	-	6,067,091	-	46,821
Interest on Long-Term Debt	694,117	-	-	-	(694,117)
<b>Total Governmental Activities</b>	<b>\$ 21,887,710</b>	<b>\$ 506,202</b>	<b>\$ 8,598,536</b>	<b>\$ 1,969,980</b>	<b>(10,812,992)</b>

General Revenues:

Taxes:

Property Tax, levied for General Purposes	734,811
Property Tax, levied for Debt Services	277,775
Volume of Business Tax	174,567
Sales Tax	1,062,664
Construction Excise Tax	138,136
Intergovernmental	6,772,103
Rent	30,722
Miscellaneous	809,057
Total General Revenues	<u>9,999,835</u>
<b>CHANGE IN NET POSITION</b>	<b>(813,157)</b>
Net Position - Beginning of Year	6,836,365
<b>NET POSITION - END OF YEAR</b>	<b>\$ <u>6,023,208</u></b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2015**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>School Improvement Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash	\$ 6,791			415,732	\$ 422,523
Cash with Fiscal Agent	256,545	1,749,345		57,202	2,063,092
Receivables:					-
Property Tax	33,127	25,417			58,544
Sales Tax	6,389				6,389
Intergovernmental				54,000	54,000
Federal Grants			4,768,457	340,987	5,109,444
Due from Other Funds	472,499			1,257,508	1,730,007
Others				2,799	2,799
<b>Total Assets</b>	<b>\$ 775,351</b>	<b>1,774,762</b>	<b>4,768,457</b>	<b>2,128,228</b>	<b>\$ 9,446,798</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	810,305		4,538,457	426,789	5,775,551
Bonds and Notes Payable		430,000			430,000
Accrued Interest		210,178			210,178
Due to Governmental Units	479,845				479,845
Due to Other Funds	661,438		230,000	838,569	1,730,007
Unearned Revenues	129,977			222,799	352,776
<b>Total Liabilities</b>	<b>2,081,565</b>	<b>640,178</b>	<b>4,768,457</b>	<b>1,488,157</b>	<b>8,978,357</b>
<b>Deferred Inflows of Resources</b>					
<b>Unavailable Revenues:</b>					
Property Taxes	33,127	-	-	-	33,127
<b>Total Deferred Inflows of Resources</b>	<b>33,127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,127</b>
<b>Fund Balances</b>					
Restricted	256,545	1,134,584	-	999,450	2,390,579
Committed	-	-	-	(359,379)	(359,379)
Unassigned	(1,595,886)	-	-	-	(1,595,886)
<b>Total Fund Balances</b>	<b>(1,339,341)</b>	<b>1,134,584</b>	<b>-</b>	<b>640,071</b>	<b>435,314</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 775,351</b>	<b>1,774,762</b>	<b>4,768,457</b>	<b>2,128,228</b>	<b>\$ 9,446,798</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO STATEMENT OF NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Total Fund Balances – Governmental Funds** **\$435,314**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:

Non Depreciable Capital Assets	\$ 13,863,263	
Depreciable Capital Assets	12,902,846	
Infrastructure Assets	8,238,091	
Accumulated Depreciation	<u>(11,529,261)</u>	
Total Capital Assets		23,474,939

Real Estate Held for Sale is not a current financial resource and  
Therefore, is not reported in the funds 987,150

Some of the Municipality's revenues will be collected after year-end  
but are not available soon enough to pay for the current period's  
expenditures and therefore are deferred in the funds: (33,127)

Some liabilities are not due and payable in the current period and therefore are not reported  
in the funds. Those liabilities consist of:

General Bonds and Notes Payable	13,110,000	
Compensated Absences	1,995,909	
Property Tax Debt – Law 42	1,125,448	
Retirement Agreement	24,488	
Aqueduct and Sewer Authority Agreement	274,804	
Section 108 Guaranteed Loan	1,998,000	
Claims & Judgments	<u>312,419</u>	
Total Long-Term Liabilities		<u>(18,841,068)</u>

**Total Net Position of Governmental Activities** **\$ 6,023,208**

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Debt Service Fund	School Improvement Grant Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property Taxes	\$ 767,938	277,775			\$ 1,045,713
Sales Tax	80,867	981,797			1,062,664
Volume of Business Taxes	174,567				174,567
Federal Assistances			4,768,457	2,334,289	7,102,746
Intergovernmental	6,772,103			3,456,325	10,228,428
Charges for Services				506,202	506,202
Construction Excise Tax	138,136				138,136
Rent	30,722				30,722
Miscellaneous	808,256	799		9,445	818,500
<b>Total Revenues</b>	<b>8,772,589</b>	<b>1,260,371</b>	<b>4,768,457</b>	<b>6,306,261</b>	<b>21,107,678</b>
<b>EXPENDITURES</b>					
Current:					
Mayor and Municipal Legislature	136,641				136,641
General Government	5,282,453			431,336	5,713,789
Public Safety	434,434			16,329	450,763
Public Works	1,625,390				1,625,390
Culture and Recreation	556,436				556,436
Health and Sanitation	535,469			1,677,277	2,212,746
Human Services and Welfare	310,540			1,590,295	1,900,835
Urban Development	61,191			1,364,075	1,425,266
Education	104,713		4,768,457	1,147,100	6,020,270
Debt Service:					
Principal		470,000		167,000	637,000
Interest and Other Charges		580,177		113,940	694,117
<b>Total Expenditures</b>	<b>9,047,267</b>	<b>1,050,177</b>	<b>4,768,457</b>	<b>6,507,352</b>	<b>21,373,253</b>
Excess (deficiency) of revenues over (under) expenditures	(274,678)	210,194	-	(201,091)	(265,575)
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceed of Bonds					-
Transfers - In	1,373,834	200,650		841,687	2,416,171
Transfers - Out	(498,746)	(745,589)		(1,171,836)	(2,416,171)
<b>Total Other Financing Sources and Uses</b>	<b>875,088</b>	<b>(544,939)</b>	<b>-</b>	<b>(330,149)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>600,410</b>	<b>(334,745)</b>	<b>-</b>	<b>(531,240)</b>	<b>(265,575)</b>
Fund Balance - Beginning as Restated	(1,939,751)	1,469,329		1,171,311	700,889
<b>Fund Balances - Ending</b>	<b>\$ (1,339,341)</b>	<b>1,134,584</b>	<b>-</b>	<b>640,071</b>	<b>\$ 435,314</b>

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Net Change in Fund Balances – Total Governmental Funds** **(\$265,575)**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Urban Development and Capital Outlay	\$ -	
Depreciation Expense	<u>(623,426)</u>	
Excess of Capital Outlay over Depreciation Expense		(623,426)

Revenues in the Statement of Revenues that correspond to prior year resources are Recorded as revenue in the Statement of Activities (33,127)

Repayment of debt proceeds principal is expenditure in the governmental funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Position. In the current year the repayments were. 470,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in State Aqueduct and Sewer Authority – Debt Agreement	(274,804)	
Decrease in Bonds	10,000	
Decrease in Property Tax Debt - MRCC	157,633	
Decrease in Property Tax Debt – Law 42	34,928	
Decrease in Section 108 Guaranteed Loan	167,000	
Increase in Compensated Absences	(357,498)	
Increase in Retirement System Administration – Debt Agreement	(24,488)	
Increase in Claims & Judgments	<u>(73,800)</u>	
Total Additional Expenditures		<u>(361,029)</u>

**Change in Net Position of Governmental Activities** **\$ (813,157)**

See accompanying Notes to Basic Financial Statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property taxes	\$ 736,564	\$ 736,564	\$ 767,938	\$ 31,374
Volume of Business Taxes	198,500	198,500	174,567	(23,933)
Sales Tax	84,975	84,975	80,867	(4,108)
Intergovernmental Revenues	6,842,627	7,072,627	6,772,103	(300,524)
Construction Excise Tax	225,000	225,000	138,136	(86,864)
Rent of Property	69,000	69,000	30,722	(38,278)
Miscellaneous	<u>911,800</u>	<u>911,800</u>	<u>808,256</u>	<u>(103,544)</u>
<b>Total revenues</b>	<u>9,068,466</u>	<u>9,298,466</u>	<u>8,772,589</u>	<u>(525,877)</u>
<b>EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING USES:</b>				
Current:				
Mayor and Municipal Legislature	150,341	150,956	144,846	6,110
General government	5,242,387	5,554,821	5,215,882	338,939
Public safety	562,269	457,360	450,384	6,976
Public works	1,510,234	1,403,952	1,688,823	(284,871)
Culture and Recreation	597,858	554,967	556,436	(1,469)
Health and Sanitation	495,967	542,468	511,354	31,114
Human Service and Welfare	199,293	138,422	314,157	(175,735)
Education	91,617	105,113	104,713	400
Transfer Out	<u>218,500</u>	<u>390,407</u>	<u>225,181</u>	<u>165,226</u>
<b>Total expenditures, encumbrances and other financing uses</b>	<u>9,068,466</u>	<u>9,298,466</u>	<u>9,211,776</u>	<u>86,690</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, ENCUMBRANCES AND OTHER FINANCING SOURCES (USES)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(439,187)</u>	<u>\$(439,187)</u>

**EXPLANATION OF DIFFERENCE BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENSES**

**Sources/inflows of resources:**

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule \$ 8,772,589  
Differences-budget to GAAP -

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances **\$ 8,772,589**

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule \$ 9,211,776  
Differences-budget to GAAP:

Prior year expenditures are not outflows of budgetary resources, but are expenditure for financial purposes 274,455

Encumbrances for supplies and equipment ordered, but not received, are reported in the year the order is placed for budgetary reporting purposes (213,783)

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (225,181)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances **\$ 9,047,267**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTE TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Municipality of **Maunabo**, Puerto Rico (Municipality) was founded in the year 1799, and operates as a local governmental unit of the Commonwealth of Puerto Rico, under the Law Number 81 of August 30, 1991, known as "Autonomy Municipalities Law of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of the Commonwealth of Puerto Rico. The legislative body consists of 12 Legislators also elected in the general elections of Puerto Rico for a four-year period. The General Justice Court System of the Commonwealth, which has jurisdiction over the Municipality, exercises the judiciary power.

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

The accounting policies of the Municipality conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Financial Reporting Model**

The accompanying basic financial statements present the financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Municipality at June 30, 2015, in conformity with *Accounting Principles Generally Accepted in the United States of America* (GAAP), as prescribed by the *Governmental Accounting Standards Board* (GASB). In addition, the accompanying basic financial statements present the changes in the financial position (results of operations) of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the fiscal year ended June 30, 2015 in conformity with GAAP.

According to the financial reporting model established by GASB No. 34, the minimum required financial statement presentation applicable to the Municipality is composed of the following elements: (1) government-wide financial statements (GWFS), (2) governmental fund financial statements (GFFS), (3) notes to basic financial statements, and (4) required supplementary information (RSI).

RSI consists of a (1) Management Discussion and Analysis (MD&A) and a Budgetary Comparison Schedule – General Fund, this is unaudited supplementary information required by GAAP presented along with, but separate from, the Municipality's basic financial statements.

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

The Budgetary Comparison Schedule - General Fund is a comparison of the actual results (using the budgetary basis of accounting, which differs from GAAP) with the original budget and the final amended budget for the General Fund. A budget to GAAP reconciliation is presented providing information of differences between the budgetary basis of accounting and GAAP.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity

The accompanying basic financial statements include all departments, agencies and municipal entities that: (1) are under the legal and administrative control of the Mayor and (2) whose funds are under the legal custody and control of the Municipality's Director of Finance and Budget, as prescribed by Law No. 81.

The Municipality's management has considered all potential component units for which it may be financially accountable and other legally separate organizations for which the nature and significance of their relationship with the Municipality may be such that exclusion of their basic financial statements from those of the Municipality would cause the Municipality's basic financial statements to be misleading or incomplete.

The Municipality's management has concluded that, based on the criteria set forth by GASB Statement No. 14 - *The Financial Reporting Entity* (GASB No. 14) and GASB Statement No. 39- *Determining Whether Certain Organizations are Component Units* (GASB No. 39), there are no legally separate entities or organizations that should be reported as component units of the Municipality as of June 30, 2015 nor for the year then ended.

C. Government-Wide Financial Statements (GWFS)

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) report information of all the activities of the Municipality. For most part, the effect of inter-fund activity has been removed from these government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The focus of the Statement of Net Position is designed to be similar to bottom line results for the Municipality and its governmental activities. This statement combines and consolidates governmental fund's current financial resources (short-term expendable resources) with capital assets and long-term obligations.

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

- **Invested in Capital Assets, Net of Related Debt** – These consist of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets. For the purposes of determining the outstanding debt attributed to capital assets, the total long-term debt related to the acquisition, construction or improvement of capital assets have been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statements (GWFS) (Continued)

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

The classification of restricted net position identifies resources that have been received or earned by the Municipality with an explicit understanding between the Municipality and the resource providers that the resources would be used for specific purposes. Grants, contributions and donations are often given under those kinds of conditions. Bond indentures also often limit the use of bond proceeds to specific purposes.

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

- **Unrestricted Net Position** – These consist of net position that are neither externally or legally restricted, nor invested in capital assets. However, unrestricted net position often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net position often have constraints that are imposed by management, but can be removed or modified.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statements (GWFS) (Continued)

A function/program describes a group of activities that are aimed at accomplishing a major service or regulatory responsibility. The functions/programs reported in the accompanying basic financial statements are: (1) Mayor and Municipal Legislature, (2) General Government, (3) Public Safety, (4) Public Works, (5) Culture and Recreation, (6) Health and Sanitation, (7) Human Services and Welfare, (8) Urban Development and, (9) Education. The governmental operations of the Municipality's departments and operational units are classified within the following functions/programs in the accompanying basic financial statements:

**Mayor and Municipal Legislature:**

Municipal Legislature  
Mayor's Office

**General Government:**

Department of Finance  
Department of Human Resources  
Department of Municipal Secretary  
Department of Internal Audit  
Administration

**Public Safety:**

Department of Emergency Management – Civil Defense

**Public Works:**

Department of Public Works

**Culture and Recreation:**

Department of Sports and Recreation  
Department Tourism and Promotion

**Health and Sanitation:**

Department of Recycling Services  
Department of Health  
Municipal Hospital

**Human Service and Welfare:**

Youth Services  
Municipal Service Center  
Multiple Services

**Urban Development:**

Federal Programs Office

**Education:**

Educational Services  
Child Care Program

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statements (GWFS) (Continued)

The statement of activities demonstrates the degree to which program revenues offset direct expenses of a given function/program or segments. Direct expenses are those that are clearly identifiable with a specific function, segment or operational unit. This statement reports revenues in three broad categories: (1) program revenues, (2) general revenues and, (3) special items.

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

- **Charges for Services** – These revenues generally consist of exchange or exchange-like transactions involving charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services. These revenues include fees charged for specific services, rent, charges for licenses and permits, and fines and forfeitures, among others.
- **Program-specific Operating and Capital Grants and Contributions** – These revenues consist of transactions that are either mandatory or voluntary non-exchange transactions with other governments, organizations, or individuals that restrict the resources for use in a particular program. Operating grants and contributions consist of resources that are required to be used to finance the costs of operating a specific program or can be used either for operating or capital purposes of a specific program. Capital grants and contributions consist of revenues or resources that are restricted for capital purposes – to purchase, construct or renovate capital assets associated with a specific program. Restricted operating and capital grants and contributions are program revenues because they are specifically attributable to a program and reduce the net expense of that program to the Municipality. They are reported net of estimated uncollectible amounts.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Government-Wide Financial Statements (GWFS) (Continued)**

The general government function/program reported in the accompanying statement of activities includes expenses that are, in essence, indirect or costs of other functions/programs of the Municipality. Even though some of these costs have been charged to certain funds in the FFS as indirect cost allocations permitted under some federal programs, the Municipality has reported these indirect costs as direct expenses of the general government function. Accordingly, the Municipality generally does not allocate general government (indirect) costs to other functions.

The effects of all inter-fund governmental activities (revenues, expenditures and other financing sources/uses among governmental funds) have been removed from the accompanying statements of net position and activities.

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

The Municipality has no fiduciary activities, which are those in which the Municipality would be holding or managing net position for specific individuals or other external parties in accordance with trust agreements or other custodial arrangements.

The Municipality has operations and activities that are financed and operated in a manner similar to private business enterprises, where the costs of providing goods or services to the general public (expenses, including depreciation) is financed primarily through user charges; and where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**D. Governmental Fund Financial Statements (FFS)**

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

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Governmental Fund Financial Statements (FFS) (Continued)

Each governmental fund is considered an independent fiscal entity accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity or deficit, revenue and expenditures. The accompanying GFFS segregate governmental funds according to their intended purpose and are used in demonstrating compliance with legal, financial and contractual provisions. The minimum number of governmental funds is maintained consistent with legal and self-imposed managerial requirements established by the Municipality. For financial reporting purposes, the Municipality classifies its governmental funds within the following categories:

- **General Fund** – The general fund is the Municipality's main operating fund and a major governmental fund, as defined below, used to account for all financial resources and governmental activities not accounted for and reported in another fund. It is presumed that the Municipality's governmental activities have been reported in the general fund except for transactions for which one of the following compelling reasons has required the use of another fund: (1) legal requirements, (2) GAAP requirements or (3) the demands of sound financial administration requiring the use of a governmental fund other than the general fund.
- **Special Revenue Funds** – The special revenue funds are major and non-major governmental funds, as defined below, used by the Municipality to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects. The uses and limitations of each special revenue fund are specified by municipal ordinances or federal and state statutes. However, resources restricted to expenditure for purposes normally financed from the general fund are reported in the Municipality's general fund provided that all applicable legal requirements are appropriately satisfied. In this case, a special revenue fund to account for such kind of transactions will be used only if legally mandated.
- **Debt Service Fund** – The debt service fund is a major governmental fund, as defined below, used by the Municipality to account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest; for (1) bonds payable for which debt service payments are legally mandated to be accounted for in a debt service fund and/or (2) bonds payable or any general long-term debt for which the Municipality is being accumulating financial resources in advance to pay principal and interest payments maturing in future years. During the fiscal year ended June 30, 2015, the financial activity accounted for in the debt service fund was specifically related to bonds payable.

The outstanding balance of general long-term obligations for which debt service payments do not involve the advance accumulation of resources (such as notes payable, obligations under capital leases, accrued compensated absences, and claims and judgments) are only accounted for in the accompanying statement of net position. The debt service payments of such debts, as applicable, are generally accounted for in the general fund.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Governmental Fund Financial Statements (FFS) (Continued)

- **Capital Projects Funds** – Capital projects funds are major and non-major governmental funds, as defined below, used to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays. Significant capital outlays financed from proceeds of general obligation, public improvement or special obligation bonds are accounted for also in the capital projects funds.

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

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

By definition, the Municipality's general fund is always considered a major governmental fund for financial reporting purposes. In addition, any other governmental fund is classified as a major governmental fund in the FFS if its total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues or expenditures) for all governmental funds. In addition, the same element that meets the 10 percent criterion must be at least 5 percent of the corresponding element total for all governmental and enterprise (proprietary) funds combined. For the purposes of applying the aforementioned major fund criteria, no eliminations of inter-fund balances have been made. Total revenues for these purposes means all revenues, including operating and non-operating revenues (net of allowances for uncollectible accounts), except for other financing sources. Total expenditures\expenses for these purposes mean all expenditures\expenses, including operating and non-operating expenditures\expenses, except for other financing uses.

Based on the aforementioned criteria, the Municipality's major governmental funds reported in the accompanying governmental fund financial statements are: (1) the general fund, (2) debt service fund, and (3) the title I grant fund.

The Debt Service Fund is used to account for the accumulation of recourses for and the payment of, general long-term debt principal, interest, and related cost.

The Title I Grant Fund is used to account for the accumulation of resources received from the State Department of Education, with an objective of improving the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

The accompanying FFS are accompanied by other statements and schedules required by GAAP: (1) the Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position, and (2) the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting

**Government-Wide Financial Statements**

The government-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

All revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are generally recorded when the exchange takes place. In exchange transactions, each party to the transaction receives and gives up essentially equal values. An exchange-like transaction is one in which there is an identifiable exchange and the values exchanged, though related, may not be quite equal. Nevertheless, the exchange characteristics of the exchange-like transaction are strong enough to justify treating it as an exchange for accounting purposes.

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

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

In the case of imposed non-exchange revenue transactions, which result from assessments made by the Municipality on nongovernmental entities, including individuals, other than assessments on exchange transactions, receivables are generally recorded in the period when an enforceable legal claim has arisen.

Government-mandated non-exchange transactions (such as grants and contributions) result when a government at one level (such as the federal or state government) provides resources to another government (such as the Municipality), and the provider government requires the recipient government to use those resources for a specific purpose or purposes established in the provider's enabling legislation. In these types of transactions, receivables and revenues are generally recorded as follows:

- For reimbursement-type (commonly known as "expenditure-driven awards"), receivables and revenues are recorded when all eligibility requirements imposed by the provider have been met. The Municipality must expend resources on the specific purpose or project before the provider reimburses any amounts. Revenue is, therefore, generally recognized as qualifying reimbursable expenditures are incurred.
- For other types of grants (mainly grants and contributions with purpose restrictions but with no time requirements), receivables and revenues are recorded when all applicable eligibility requirements are met. When the provider is a government (including the government of the United States of America) the applicable

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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recognition period for both, the provider and the recipient, is the provider's fiscal year and begins on the first day of that year.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Measurement Focus and Basis of Accounting (Continued)**

**Government-Wide Financial Statements (Continued)**

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

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

**Governmental Fund Financial Statements**

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

The principal revenue sources considered susceptible to accrual include property taxes, municipal license taxes, sales and use taxes, construction excise taxes, intergovernmental grants and contributions, interest on deposits and charges for services. These principal revenue sources meet both measurability and availability criteria in the accompanying governmental fund financial statements, except for amounts recorded as earned and unavailable revenues.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

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

Interest on deposits is recorded when earned only if collected within 90 days after the fiscal year-end since these revenues would be considered both measurable and available.

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

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

- Principal and interest on bonds payable are recorded when they mature (when payment is due), except for principal and interest due on July 1, 2014, which have been recorded as governmental fund liabilities at June 30, 2015, which is the date when resources are available in the debt service fund (generally, June 30).
- Notes payable, obligations under capital leases, compensated absences, and amounts subject to accrued claims and judgments under litigation are recorded only when they mature (when payment is due).
- Certain accrued liabilities not due and payable or not normally expected to be liquidated with current available and expendable financial resources are recorded in the accompanying statement of net position. Such liabilities are recorded in the governmental funds when they mature.
- Executory purchase orders and contracts are recorded as assignments of fund balance in the governmental funds FFS.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Measurement Focus and Basis of Accounting (Continued)**

**Governmental Fund Financial Statements (Continued)**

Liabilities outside the bounds of these exceptions or modifications are reported as governmental fund liabilities when incurred (including salaries, professional services, supplies, utilities, etc.) since these liabilities normally are paid in a timely manner and in full from current financial resources.

The measurement focus of the GFFS is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related governmental fund liability is incurred. Allocation of costs, such as depreciation and amortization, are recorded in the accompanying statement of activities, but are not recorded in the accompanying GFFS.

Under the financial reporting model established by GASB No. 34, all general capital assets and the un-matured long-term liabilities (determined using the modified accrual basis of accounting) are no longer reported in account groups within the governmental fund balance sheet but are incorporated into the accompanying statement of net position since July 1, 2003.

**F. Stewardship, Compliance and Accountability**

**Budgetary Data**

The Municipality annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts of Proprietary Funds and Special Revenue Funds. Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of inter-fund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of supplemental appropriations. During the year, several supplemental appropriations were necessary.

The budget columns (original and final budgets) of the Budgetary Comparison – General Fund reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year). Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Stewardship, Compliance and Accountability (Continued)

Amendments to the budget, including transfers, require the approval of the Municipal Legislature. Unencumbered appropriations lapse at the end of the next fiscal year. The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the basic financial statements:

1. Prior of May 31 of each fiscal year, the Mayor submits to the Municipal Legislature a proposed budget for the fiscal year commencing the following July 1 in addition of a budget message;
2. The budget document is available for public inspection prior to its approval by the Municipal Legislature;
3. The Commissioner of Municipal Affairs examines the budget to verify if it complied with the law's standards and sends it to the Mayor for any comments or recommendation before the limited date establishes by the Law;
4. Prior to June 13, the annual budget is legally enacted through passage of the annual appropriation ordinance;
5. If a budget is not adopted prior to the end of the end of the fiscal year, the annual budget for the preceding fiscal year, as approved by the Municipal Legislature and the Mayor, is automatically renewed for the ensuing fiscal year until a new budget is approved. This permits the Municipality to continue making payments for its operating and other expenses until the new budget is approved;
6. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Legislature has the authority to make necessary amendments made during the fiscal year and are reflected in the budget information included in the Budgetary Comparison Schedule – General Fund;
7. Budgetary data for the Special Revenue Fund has not been presented in the accompanying basic financial statements as such funds are budgeted over the life of the respective grant or project and not on an annual basis.

Since the budgetary basis differs from accounting principles generally accepted in the United States of America (GAAP), actual amounts for the General Fund in the accompanying Budgetary Comparison Schedule, is presented on the budgetary basis to enhance comparability.

The principal differences between the budgetary and GAAP bases are the following:

1. Encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under GAAP.
2. The non-exonerated portion of the property tax advances are presented as revenue in the budgetary basis and as other financing sources under GAAP.
3. Inter-fund transactions of the General and Special Revenue Funds are not included in the budgetary basis.
4. Certain accrued liabilities and other debts are not included in the budgetary basis.
5. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Stewardship, Compliance and Accountability (Continued)**

All encumbrance appropriations in the operating budget lapse at the end of the fiscal year. Property taxes collected during the current year by the Municipal Revenue Collection Center (Fiscal Agent) are presented as revenues in the accounting basis but are not considered in the budgetary schedule.

The special funds of the Special Revenue Fund have not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Finance Awards Programs included in the Major and Non Major Funds is based on a program period which is not necessarily a year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

**G. Cash, Cash Equivalent and Investment**

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

Cash with fiscal agent represents property and sales tax collections retained by the Municipal Revenues Collection Center and the Government Development Bank of the Commonwealth of Puerto Rico, respectively. Cash with fiscal agent, also represent undisbursed proceeds of certain bonds, loans or grants which are maintained in a cash custodian account by the Government Development Bank of the Commonwealth of Puerto Rico.

Cash balance recognized in the Debt Service Fund is restricted for the payment of the Municipality's obligations, and others are restricted for specific projects, such as the acquisition or construction of permanent improvements. The sinking fund is maintained by the Governmental Development Bank of Puerto Rico, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

**H. Receivables**

Receivable are stated net of estimated allowances for uncollectible accounts, which are determined upon past collection experience and current economic conditions. Receivable from Federal Government represents amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded programs.

**I. Inventories**

The General, Special Revenue and Capital Project Funds, purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. The cost of purchases is recorded as expenditure in the appropriate fund and the inventory is not recorded in the basic financial statements because, it is an insignificant amount.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**J. Real Estate Held for Sale**

Real estate held for sale is a construction project, which consist of nine (9) apartments that are for sale for qualified low and very low income families. This project is subsidized by the federal funds Community Development Block Grant-Neighborhood Stabilization Program. This real estate is carried at cost.

**K. Unearned Revenues**

In the governmental fund financial statements, unearned revenue arises when the Municipality receives resources before it has a legal claim to them (reported as "unearned revenue" in the accompanying balance sheet-governmental funds). In subsequent periods, when the revenue recognition criterion is met, the liability for unearned revenue is removed and revenue is recognized.

Unearned revenues at the government-wide level arise only when the Municipality receives resources before it has a legal claim to them (reported as "unearned revenue" in the accompanying statement of net position).

**L. Deferred Outflows/ Inflows of Resources**

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period (s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no deferred outflows of resources. In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balances that applies to a future period (s) a so will not be recognized as an inflow of resources (revenue) until that time. At June 30, 2015 the Municipality presented deferred inflows of resources in the balance sheet.

**M. Capital Assets**

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. The Municipality 's capitalization levels are \$50 on personal property. For improvements other than buildings, the capital outlay must be greater than \$10,000, extend the estimated useful life for ten years, and be greater than 10% of the original cost of the asset. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<b>Capital Assets</b>	<b>Years</b>
Buildings and site improvements	40
Infrastructure	40
Vehicles	5
Furniture and fixtures	5
Machinery and equipment	3 to 5

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**M. Capital Assets (Continued)**

Depreciation and amortization expense of capital assets is recorded as a direct expense of the function/program specifically identified with the asset. Depreciation and amortization of infrastructure is not allocated to various functions/programs but reported as direct expenses of the urban and economic development function.

**N. Long-Term Obligations**

The liabilities reported in the government-wide financial statements included general and special obligation bonds and notes, and other long-term liabilities, such as vacation, sick leave, litigation, long-term liabilities to other governmental entities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources, while bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Non-interest bearing notes payable are accounted for under the provisions of Opinion No. 21, *Interest on Receivables and Payables*, issued by the Accounting Principles Board (APB No. 21). According to APB No. 21, the Municipality has recorded such notes at present value with an imputed interest rate that approximates the rate that would have been used, using the same terms and conditions, if it had been negotiated by an independent lender. In the accompanying statement of net position, such notes payable are reported net of the applicable unamortized discount, which is the difference between the present value and the face amount of the notes.

**O. Compensated Absences**

The Municipality accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The Municipality's employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of sixty (60) days and sick leave up to a maximum of ninety (90) days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years of service who are entitled to sick leave pay up to the maximum allowed. The Municipality accrued a liability for compensated absences, which meet the following criteria:

1. The Municipality's obligation relating to employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria and requirements as established by GASBS No. 16; the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees. For the government-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Compensated Absences (Continued)

The following is a summary of changes in the balance of Compensated Absences for the fiscal year ended June 30, 2015.

<u>BALANCE JUNE 30, 2014</u>	<u>NEW ISSUES</u>	<u>RETIREMENTS AND CURRENT MATURATES</u>	<u>BALANCE JUNE 30, 2015</u>	<u>CURRENT PORTION</u>	<u>LONG-TERM PORTION</u>
\$ 1,638,411	\$ 357,498	\$ -	\$ 1,995,909	\$ 410,000	\$ 1,585,909

P. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. Corresponding premiums payable monthly are paid directly by the Municipality. Also, there is an additional insurance cost that is withheld by the Municipal Revenue Collection Center from the monthly advances of annual property tax and subsidy sent to the Municipality.

Q. Inter-fund Transactions

Inter-fund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide columnar presentation. The Municipality has the following types of reciprocal and nonreciprocal inter-fund activities:

- ❖ **Inter-fund loans** – Represent amounts provided with a requirement for repayment, which are recorded as “due from” in the lender governmental fund and “due to” in the borrower governmental fund. Inter-fund receivables, which are not considered currently available financial resources, are reported as advances. For amounts not expected to be collected within a reasonable period, inter-fund receivables/payables are reduced to the estimated realizable value and the amount that is not expected to be repaid is reported as a transfer from the governmental fund that made the loan.
- ❖ **Inter-fund transfers** – Represent flows of assets (permanent reallocation of financial resources among governmental funds) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported as other financing uses in the governmental fund making transfers and as other financing sources in the governmental fund receiving transfers.
- ❖ **Inter-fund reimbursements** – Represent repayments from the governmental fund responsible for particular expenditures or expenses to the governmental fund that initially paid for them.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Claims and Judgments**

The estimated amount of the liability for claims and judgments, if any, which is due on demand, such as from adjudicated or settled claims, is recorded in the General Fund. The Long-Term Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

**S. Use of Estimates**

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

**T. Accounting for Pension Costs**

For the purpose of applying the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (GASB No. 27), the state government of the Commonwealth of Puerto Rico is considered to be the sponsor of the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) and System 2000, a multi-employer cost-sharing defined benefit pension plan and a hybrid defined contribution plan, respectively, in which the employees of the Municipality participate. The Municipality is considered a participant and not a sponsor, of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth of Puerto Rico and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth of Puerto Rico. Accordingly, no portion of the net pension obligation (NPO) related to ERS has been allocated to the Municipality in the accompanying basic financial statements. The basic financial statements of the Commonwealth of Puerto Rico report the total amount of the net pension obligation of ERS, including any amount that may correspond to the Municipality.

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing plan. Accordingly, pension costs recognized in the accompanying basic financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions.

**U. Risk Financing**

The Municipality carries commercial insurance to cover casualty, theft, tort claims and other losses. Insurance policies are negotiated directly by the Municipality.

Insurance cost paid by the Municipality during fiscal year 2014-2015 amounted \$131,784. In addition, cost of the worker's compensation insurance that covers all municipal employees and is deducted from the gross property tax collections by the Municipal Revenue Collection Center ("CRIM") for the year ended June 30, 2015 amounted to \$472,401.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Fund Balances

According to the provisions of GASB No. 54, the fund balances are reported in five categories:

- ❖ **Non-spendable** – Amounts that cannot be spent because they are: a) not in spendable form or b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ❖ **Restricted** – Amounts are restricted by external parties (creditors, grantors, contributors or law/ regulations) of other governments or restricted by law through constitutional provisions or enabling legislation.
- ❖ **Committed** – Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action (ordinances or resolutions) of the Municipality's highest level of decision making authority (Municipal Legislature). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Municipal Legislature.
- ❖ **Assigned** – Amounts that are constrained by the Municipality's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the Municipal Legislature, the Mayor or by an official to which the Municipal Legislature delegates authority in conformity with the Autonomous Municipalities Law of Puerto Rico.
- ❖ **Unassigned** – Represent the residual classification for the Municipality's General Fund. Therefore, in order to calculate unassigned fund balance, total fund balance less non-spendable, restricted, committed and assigned equals unassigned fund balance. The resulting amount will be available for any purpose.

Negative fund balance amounts are assigned amounts reduced to the amount that will raise the fund balance to zero. Consequently, negative residual amounts are restricted, committed and assigned fund balance classifications have been reclassified to unassigned fund balances.

The Municipality reports resources constrained to stabilization as a specified purpose (restricted or committed fund balance in the general fund) only if: (1) such resources meet the other criteria for those classifications, as described above and (2) the circumstances or conditions that signal the need for stabilization are identified in sufficient detail and are not expected to occur routinely.

However, the Municipality has not entered into any stabilization-like arrangements, nor has set aside material financial resources for emergencies and has not established formal minimum fund balance amounts as of and for the fiscal year ended June 30, 2015.

When an expenditure is incurred for purposes for which amounts are available in multiple fund balance classifications, the Municipality uses restricted resources first, and then unrestricted resources. Within unrestricted resources, the Municipality generally spends committed resources first, followed by assigned resources, and then unassigned resources.

At June 30, 2015, the accompanying fund financial statements reported fund balances as restricted, committed and unassigned.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**W. Future Adoption of Accounting Pronouncements**

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

- GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations*" (Issued 01/13) 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 combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis.
- GASB Statement No. 70, "*Accounting and Financial Reporting for Non-exchange Financial Guarantees*" (Issued 04/13). The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.
- GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*" (Issued 11/13). The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.
- GASB Statement No. 72, "*Fair Value Measurement and Application*" (Issued 2/15). The objective of this Statement is to provide guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.
- GASB Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*" (Issued 06/15). The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**W. Future Adoption of Accounting Pronouncements (Continued)**

- GASB Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*" (Issued 06/15). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
- GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" (Issued 06/15). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*" (Issued 06/15). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.
- GASB Statement No. 77, "*Tax Abatement Disclosures*" (Issued 08/15). The objective of this Statement is to require disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.
- GASB Statement No. 78, "*Pension Provided Through Certain Multiple-employer Defined Benefit Plans*". This statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pension provided through certain multiple-employer defined benefit pension plan and to state or local governmental employers whose employees are provided with such pension. The provisions of this statement are not effective until fiscal year 2016.
- GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*". This statement addresses accounting and financial reporting for certain external investment pools and pool participant. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purpose. An external investment pool qualified for that reporting if it meets all of the applicable criteria established in this Statements. The provisions of this statement are not effective until fiscal year 2016 and 2017.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**2. CASH AND CASH EQUIVALENTS**

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

Custodial credit risk that in the event of a bank failure, the Municipality's deposits may not be recovered. Pursuant to the *Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico* the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully securities pledged as collateral are held, in the Municipality's name, by the agents of the Commonwealth's Secretary of Treasury. Deposits with GDB are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. Therefore, the Municipality's management has concluded that at June 30, 2015 the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low.

The Municipality's bank balances in commercial banks of \$422,523 in Other Governmental Funds were fully collateralized at June 30, 2015.

The deposits at GDB of \$256,545 in the General Fund, the \$1,749,345 in the Debt Service Fund, and the \$57,202 in Other Governmental Funds, are unsecured and uncollateralized, as no collateral is required to be carried by governmental banks.

**3. RECEIVABLES**

**A. Property Taxes Receivables**

Property taxes receivable of \$33,127 and \$25,417 in the General Fund and Debt Service Fund, respectively, represents advances from fiscal year 2014-2015, not collected by the Municipality at June 30, 2015.

**B. Sales Tax Receivables**

As described in Note 14, the Municipal Legislature approved the imposition of the municipal sales and use tax during fiscal year 2006-2007. Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. Tax is due each 20<sup>th</sup> day of each month based on tax collected in the preceding month. Therefore, sales tax receivable of \$6,389 in the General Fund, represents the amounts due by the taxpayers at June 30, 2015.

**C. Intergovernmental Receivables**

Receivables in the Other Governmental Funds represent expenditures incurred not yet reimbursed by the state agencies. Following is a detail of the state government receivables:

Description	Amount
State Department of Labor	\$ 50,000
State Department of Education - OMEP	4,000
<b>Total</b>	<b>\$ 54,000</b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

3. RECEIVABLES (CONTINUED)

D. Federal Grants Receivable

Federal grants receivable amounting to \$4,453,462 in the School Improvement Grant Fund represents expenditures incurred not yet reimbursed by Department of Education, the pass-through agency. Also, receivables in Other Governmental Funds represent expenditures incurred not yet reimbursed by the federal agencies or the pass-through grantors. Following is a detail of the federal grants receivable:

Description	Amount
Child Care and Development Block Grant	\$ 46,423
State Administration of Public Housing	39,978
Community Service Block Grant	10,552
Community Development Block Grant	139,480
Homeland Security Grant	14,966
Puerto Rico Rural Development Corporation	110
Puerto Rico Regional Elderly Office	74,983
Emergency Solution Grant	14,495
<b>Total</b>	<b><u>\$ 340,987</u></b>

E. Other Receivables

Other receivable in the Other Governmental Fund, for the amount of \$2,799 represents parents' contribution share for the program Child Care Development Block Grant.

F. Due from Other Funds

Inter-fund receivables and payables at June 30, 2015 are summarized as follows:

Receivable Fund	Payable Fund	Purpose	Amount
General Fund	Other Governmental Funds	Payroll and reimbursable expenditures	\$ 242,504
Other Governmental Funds	General Fund	Inter-fund Loans	<u>1,487,503</u>
<b>Total</b>			<b><u>\$ 1,730,007</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**4. CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE**

**REAL ESTATE HELD FOR SALE**

On July 6, 2009, the Municipality enter into an agreement with the Commissioner of Municipal Affairs to participate in a construction of a nine (9) apartments building, for low and very low income families, financed with funds provided by the Federal program CDBG- Neighborhood Stabilization Program. At June 30, 2015, real estate held for sale presented in the governmental wide statement of net position, related to these constructions, amounted \$987,150.

**CAPITAL ASSETS**

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the Capital Assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying Statement of Net Position do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2015. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this Pronouncement, which is not later June 30, 2007. The Municipality has not complied with this requirement.

Capital assets; those with an estimated useful live of one year or more from the time of acquisition by the Municipality and a cost of \$50 or more, are primarily funded through the issuance of long-term bonds and loans and state and federal assignments. A summary of capital assets and changes occurring in 2013, including those changes pursuant to the implementation of GASB Statement No. 34, follows (Land and construction in progress are not subject to depreciation):

Governmental Activities	Balance June 30,2014	Additions	Retirements / Reclassifications	Balance June 30,2015
Capital asset, not being depreciated:				
Land	\$ 952,313	-	-	\$ 952,313
Work of Art	90,000	-	-	90,000
Construction in progress	<u>12,820,950</u>	-	-	<u>12,820,950</u>
<b>Total capital assets not being depreciated</b>	<u>13,863,263</u>	-	-	<u>13,863,263</u>
Capital assets, being depreciated:				
Buildings	4,585,285	-	-	4,585,285
Improvements	4,760,769	-	-	4,760,769
Infrastructure	8,238,091	-	-	8,238,091
Machinery and equipment	1,359,931	-	-	1,359,931
Motor vehicles	<u>2,196,861</u>	-	-	<u>2,196,861</u>
<b>Total capital assets being depreciated</b>	<u>21,140,937</u>	-	-	<u>21,140,937</u>
Less accumulated depreciation for:				
Buildings	(2,783,824)	(177,193)	-	(2,961,017)
Improvements	(2,240,150)	(239,133)	-	(2,479,283)
Infrastructure	(1,912,639)	(207,100)	-	(2,119,739)
Machinery and equipment	(1,577,491)	-	-	(1,577,491)
Motor vehicles	<u>(2,391,731)</u>	-	-	<u>(2,391,731)</u>
<b>Total accumulated depreciation</b>	<u>(10,905,835)</u>	<u>(623,426)</u>	-	<u>(11,529,261)</u>
<b>Total capital assets being depreciated, net</b>	<u>10,235,102</u>	<u>(623,426)</u>	-	<u>9,611,676</u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 24,098,365</b></u>	<u><b>(623,426)</b></u>	<u><b>-</b></u>	<u><b>\$ 23,474,939</b></u>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

4. CAPITAL ASSETS AND REAL ESTATE HELD FOR SALE (CONTINUED)

CAPITAL ASSETS (Continued)

Depreciation expenses were charged to governmental functions/programs as follows:

Governmental activities	Amount
General government	\$ 81,618
Mayor and Municipal	101,824
Public Safety	46,307
Public Works	268,830
Culture and Recreation	36,051
Sanitation	45,007
Human services and welfare	43,789
<b>Total depreciation expenses</b>	<b><u>\$ 623,426</u></b>

The Municipality has not maintained complete and adequate records in order to obtain sufficient and competent evidential matter related to the capital assets reported in the governmental activities. In addition, the infrastructure assets recorded in the accompanying statement of net position do not include a substantial portion of the Municipality's infrastructure assets constructed or acquired by the Municipality from 1980 through June 30, 2014. GASB Statement No. 34 requires to retroactively applying the requirements to major general infrastructure assets within at least four (4) years of the adoption of this pronouncement, which is not later than June 30, 2007. The Municipality has not complied with this requirement.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES LIABILITIES

Accounts payable and accrued expenses liabilities in governmental fund financial statements represent expenditures incurred during fiscal year 2014-2015, and not paid by the Municipality at June 30, 2015. Following is a detail of these accounts payable and accrued liabilities:

Major Governmental Funds	Accounts Payable	Accrued Liabilities	Total
General Fund	\$ 405,565	404,740	810,305
School Improvement Grant Fund	4,538,457	-	4,538,457
Other Governmental Funds	426,789	-	426,789
<b>Total</b>	<b><u>\$ 5,370,811</u></b>	<b><u>404,740</u></b>	<b><u>5,775,551</u></b>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**6. BONDS AND NOTES PAYABLE**

The Municipality issued general and special obligation bonds and notes, principally to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years and to cover expenditures of special events. At June 30, 2015, the government-wide and fund financial statements presented accounts payable regarding to the outstanding balance of these bond and notes in the amount of \$430,000 and accrued interests of \$210,178.

**7. DUE TO OTHER GOVERNMENTAL UNITS**

As of June 30, 2015, balance due to other governmental units consists of the following:

Governmental Agency	Amount
Office of the Commissioner of Municipal Affairs	\$ 402,923
MRCC	4,373
Commonwealth of Puerto Rico Employees Association	9,945
State Aqueduct and Sewer Authority	61,598
General Service Administration	1,006
<b>Total</b>	<b><u>\$ 479,845</u></b>

**8. UNEARNED REVENUES**

**A. Volume of business tax** – unearned revenues of \$129,977 in the General Fund relates to volume of business taxes collected in fiscal year 2014-2015 that will be earned in fiscal year 2015-2016.

**B. Federal Grants** – unearned revenues presented in the Other Governmental Funds represents the portion of federal grants received for which qualifying expenditures have not been incurred. Unearned revenues from the federal government in the Other Governmental Funds are as follows:

Program Description	Amount
Homeland Security Department	\$ 68,947
Child and Adult Care Food Program	28,714
Twenty-First Century Community Learning Centers	68,607
Homelessness Prevention and Rapid Re-housing Program	7,958
911 System	29,783
Housing Preservation Grant	4,360
Community Department Block Grant	14,430
<b>Total</b>	<b><u>\$ 222,799</u></b>

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
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**9. DEFERRED OUTFLOW/INFLOW OF RESOURCES**

At June 30, 2015, measurable and unavailable revenues recorded in the GWFS and the governmental fund financial statements in the General Fund is MRCC Final Liquidation of Property Taxes.

**10. GENERAL LONG-TERM DEBTS**

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

Description	Beginning Balance- as restated	Borrowings or Additions	Payments or Deductions	Ending Balance	Due Within One Year
Bonds and Notes Payable	\$ 13,590,000	(10,000)	\$ 470,000	\$ 13,110,000	\$ 470,000
Property Tax Debt – Law 42	1,160,376	-	34,928	1,125,448	37,122
Compensated absences	1,638,411	357,498	-	1,995,909	410,000
Property Tax Debt - MRCC	157,633	-	157,633	-	-
Section 108 Guaranteed Loan	2,165,000	-	167,000	1,998,000	167,000
State Aqueduct and Sewer Authority – debt agreement	-	274,804	-	274,804	75,000
State Retirement System Administration- debt agreement	-	220,393	195,905	24,488	24,488
Claims & Judgments	238,619	73,800	-	312,419	-
<b>Total</b>	<b>\$ 18,950,039</b>	<b>\$ 916,495</b>	<b>\$ 1,025,466</b>	<b>\$ 18,841,068</b>	<b>\$ 1,183,610</b>

**A. GENERAL OBLIGATIONS BONDS AND NOTES**

The Municipality issues general and special obligation bonds and notes, principally, to provide funds for the acquisition and construction of major capital facilities, to pay debt incurred in prior years, and to cover the expenditures of a special event. Bonds and notes payables as of June 30, 2015, are comprised of the following individual issues:

DESCRIPTION	AMOUNT
\$4,920,000, Series 2008, for construction of public recreational facilities, payable in annual installments ranging from \$70,000 to \$420,000, excluding variable interest from 1.48% to 5.00%, through July 1, 2032	4,265,000
\$1,110,000, Series 2007, for construction of public recreational facilities, payable in annual installments ranging from \$15,000 to \$95,000, excluding fixed interest from 5.00%, through July 1, 2032	940,000
\$1,030,000, Series 2010, for construction of public recreational facilities, payable in annual installments ranging from \$15,000 to \$90,000, excluding fixed interest from 6.50%, through July 1, 2034	915,000
\$820,000, Series 2010, for operational purposes, payable in annual installments ranging from \$20,000 to \$80,000, excluding variable interest from 6.50% to 7.00%, through July 1, 2029	685,000

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

10. GENERAL LONG-TERM DEBTS (CONTINUED)

A. GENERAL OBLIGATIONS BONDS AND NOTES (Continued)

DESCRIPTION	AMOUNT
\$255,000, Series 2011, for operational purposes, payable in annual installments ranging from \$30,000 to \$45,000, excluding variable interest from 6.00% to 6.50%, through July 1, 2018	125,000
\$605,000, Series 2012, for operational purposes, payable in annual installments ranging from \$10,000 to \$50,000, excluding variable interest from 6.00% to 6.50%, through July 1, 2036	565,000
\$1,965,000, Series 2012, for operational purposes, payable in annual installments ranging from \$25,000 to \$165,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2037	1,875,000
\$440,000, Series 2012, for operational purposes, payable in annual installments ranging from \$50,000 to \$80,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2019	275,000
\$260,000, Series 2012, for purchase of equipment, payable in annual installments ranging from \$5,000 to \$25,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2034	245,000
\$655,000, Series 2012, for construction of public recreational facilities, payable in annual installments ranging from \$25,000 to \$70,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2027	575,000
\$2,410,000, Series 2013, for operational purposes, payable in annual installments ranging from \$30,000 to \$200,000, excluding variable interest from 6.00% to 7.50%, through July 1, 2038	2,330,000
\$410,000, Series 2013, for operational purposes, payable in annual installments ranging from \$45,000 to \$75,000, excluding variable interest from 6.00% to 7.00%, through July 1, 2020	<u>315,000</u>
<b>Total General Obligations – Bonds</b>	<b><u>\$13,110,000</u></b>

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**10. GENERAL LONG-TERM DEBTS (CONTINUED)**

**A. GENERAL OBLIGATIONS BONDS AND NOTES (Continued)**

These bonds and notes are payable with the following Municipality's resources:

- ❖ Special ad valorem property tax, which is restricted for debt service and retained by the Government Development Bank for Puerto Rico for such purposes;
- ❖ Community Development Block Grants' Funds;
- ❖ Municipal Sales Taxes resources restricted for debt service, and;
- ❖ Operational resources.

**B. BONDS AND NOTES AMORTIZATION**

The annual requirements to amortize the general obligations outstanding as of June 30, 2015 are as follows:

Year Ending June 30,	Principal Payment	Interest Payment	Total
2016	\$ 495,000	805,175	1,300,175
2017	540,000	782,950	1,322,950
2018	575,000	752,200	1,327,200
2019	580,000	716,075	1,296,075
2020	530,000	679,650	1,209,650
2021-2025	2,830,000	2,914,425	5,744,425
2026-2030	3,745,000	1,932,600	5,677,600
2031-2035	2,885,000	820,000	3,705,000
2036-2039	930,000	123,075	1,053,075
<b>Total</b>	<b><u>\$ 13,110,000</u></b>	<b><u>9,526,150</u></b>	<b><u>22,636,150</u></b>

**C. PROPERTY TAX DEBT – LAW 42**

The Municipality entered into a repayment agreement with the Government Development Bank for Puerto Rico (GDB) and the CRIM, to pay off the excess of property tax advances through fiscal year 2000 and 2001. The CRIM retains the payment from the property tax advances of the Municipality. The amounts retained by the CRIM are remitted to GDB on July 1 of each year through July 1, 2032 bearing interests at 6.19%. The outstanding balance of the note payable to the CRIM at June 30, 2015 amounted to \$1,125,448.

**D. COMPENSATED ABSENCES**

The government-wide statement of net position includes \$1,995,909 of accrued sick leave benefits, and accrued vacation benefits, representing the Municipality's commitment to fund such costs from future operations. The Municipality did not maintain complete and adequate records over the compensated absences balances presented in the statement of net position at June 30, 2015.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**10. GENERAL LONG-TERM DEBTS (CONTINUED)**

**E. SECTION 108 GUARANTEED LOAN**

On September 14, 2006, the Municipality entered into a loan guarantee commitment of \$3,000,000 with the U.S. Department of Housing and Urban Development (HUD) pursuant to an application under Section 108 of the Housing and Community Development Act of 1974 (Section 108).

The proceeds of \$3,000,000 of the loan guarantee commitment were used by the Municipality to finance the construction of a public recreational facility. The proceeds and uses of the loan guarantee commitment were accounted for in the Section 108 loan guarantee, a fund in the Other Government Funds. The loan guarantee commitment is repaid with grant awards received from the Community Development Block Grants (CDBG), administered by the Puerto Rico pass-through, Office of the Commissioner of Municipal Affairs (OCAM). At June 30, 2015, the outstanding principal balance of the loan guarantee commitment amounted to \$1,998,000. Actually, the Municipality is not complying with the required annual payments of the Section 108 loan. The amounts not paid by the Municipality during the past fiscal years were paid directly by the OCAM. At June 30, 2015, the Municipality owes to OCAM the amount of \$402,923 in accumulated principal and interest payments from current and past years.

**11. DEBT RETIREMENT**

Revenues of the debt service fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the Municipal Revenue Collection Center of the Commonwealth of Puerto Rico to the Municipality.

These property taxes are accumulated by the Municipal Revenue Collection Center in costs of the general obligations bonds issued by the Municipality. Payments are made to the Government Development Bank of the Commonwealth of Puerto Rico from such accumulated funds by the Municipal Revenue Collection Center of Puerto Rico.

**12. PROPERTY TAXES**

The Municipality is authorized by Law No. 81 to impose and collect personal and real property taxes. Under the laws and regulations of the Commonwealth, personal property taxes can be imposed to any natural or legal person that at January 1 of each year is engaged in trade or business and is the owner of personal property used in trade or business.

Personal property taxes are self-assessed by taxpayers every year generally using the book value of personal property assets owned by the taxpayer at January 1 (assessment date) and reporting such taxable value through a personal property tax return filed on May 15 subsequent to the assessment date. The total personal property tax rate in force at June 30, 2015 was 6.83% (of which 2.30% belong to the Commonwealth of Puerto Rico and 4.03% belongs to the Municipality).

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 to 1957 market prices. The total real property tax rate in force at June 30, 2015 was 9.83% (of which 2.30% belongs to the Commonwealth of Puerto Rico and 7.53% belongs to the Municipality).

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 assumes payment of the basic tax (4% and 6% 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**12. PROPERTY TAXES (CONTINUED)**

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

This settlement has to be completed on a preliminary basis not later than each December 31. If CRIM remits to the Municipality property tax advances, which are less than the property tax actually collected, an additional property tax receivable is recorded at June 30. However, if advances exceed the amount actually collected by CRIM, an intergovernmental payable is recorded at June 30.

Law No. 81 provides for the levy of an annual special tax of 1.03% of the assessed value of all real and personal property not exonerated from taxation. Such special tax is levied and collected by CRIM. Collections of this special tax are remitted to the Commonwealth's debt service fund for payment of debt service on general obligations of the Commonwealth.

In addition, 1.50% of the total personal and real property taxes collected by CRIM is restricted for the Municipality's debt service requirements and is retained by GDB for such purposes.

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:

- ❖ 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.
- ❖ An additional amount not exceeding \$16 million, on an annual basis, is distributed to the Municipal Equalization Fund, provided it is within the 35% 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.

**13. VOLUME OF BUSINESS TAXES**

The Municipality is authorized by Law No. 81 to impose and collect municipal license taxes on all trade or business activities operated by any natural or legal person within the territorial area of Maunabo. This is a self-assessed tax generally based on the business volume measured by gross sales. The Municipality establishes the applicable tax rates. At June 30, 2015, the municipal tax rates imposed by the Municipality were 1.50% for financing institutions and 0.50% for other types of taxpayers. Any taxpayers that 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% and 90% under standard rates.

Each taxpayer must assess his/her corresponding municipal license tax by declaring his/her volume of business through a tax return to be filed every April 15 based on the actual volume of business generated in the preceding calendar year.

COMMONWEALTH OF PUERTO RICO  
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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**13. VOLUME OF BUSINESS TAXES (CONTINUED)**

Taxpayers with a sales volume of \$3 million or more must include audited financial statements with their tax returns. The tax can be paid by the taxpayer in two equal installments due on July 15 and January 15, subsequent to the filing of the declaration.

The first installment of the tax covers the six-month period ended December 31, subsequent to the filing date of the declaration, while the second installment of the tax covers the six-month period ended June 30 of the subsequent calendar year. If a taxpayer elects to pay the tax in full on the filing date of the declaration (generally April 15), a 5% discount is granted automatically on the total tax amount due.

Any municipal license taxes collected in advance (that is, pertaining to a future fiscal year) are recorded as unearned revenues in the GWFS and the GFFS (See Note 9).

**14. SALES TAXES**

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

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

The amount collected by the PRDT, (.5% of the 1.5%) is deposited in accounts or special funds in the Governmental Development Bank of Puerto Rico (GDB), subject to restrictions imposed and distributed as follows:

- .2% of the .5% will be deposited in a Municipal Development Fund to be distributed among all the municipalities in accordance with a formula created by the Act,
- .2% of the .5% will be deposited in a Municipal Redemption Fund to finance loans to Municipalities and,
- .1% of the .5% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature

The Municipal Legislature approved a municipal ordinance to conform to dispositions of Act 80. Effective January 1, 2011 the Commonwealth of Puerto Rico adopted a new Internal Revenue Code (2011 PR Code). Subtitle D (Sections 4010 to 4070) of the 2011 PR Code incorporates the dispositions applicable to the sales and use tax. As stated by Section 4050 the Municipalities may use the sales and use tax proceeds to finance solid waste, recycling, capital projects, health and public safety programs as well as any other activity that promotes sound public administration.

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the PRDT. The tax is due the 10th day of each month based on tax collected in the preceding month. The Municipality recorded as revenue \$80,867 in the general fund corresponding to the 1% imposition and \$981,797 in the debt service fund corresponding to the Municipal Redemption Fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**14. SALES TAXES (CONTINUED)**

Individuals, organizations and entities subject to collect the municipal sales and use tax must file a tax return to the Municipality. The tax is due the 10th day of each month based on tax collected in the preceding month. Municipal sales and use tax receivable in the general at June 30, 2015, of \$6,389, represents the tax collected on June (or before) by individuals, organizations and entities but reported and paid to the Municipality on or before July 10, net of uncollectible accounts.

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

In order to address the fiscal and credit crisis of the Commonwealth of Puerto Rico, the GDB liquidity and the difficult fiscal situation of the municipalities of Puerto Rico, on January 24, 2014 the Commonwealth approved Act No. 18 and 19. Those Acts provide for the restructuring and creation of financing structures from sales and use tax sources to guarantee and pay municipal long-term debt issuances. As a result of this legislation the municipalities of Puerto Rico may improve its credit capacity along with maintaining sufficient resources for operations.

The purpose of the Act No. 18 of January 24, 2014 is to create a special fund called Municipal Administration Fund (FAM) under custody of the Governmental Development Bank of Puerto Rico ("GDB") that permits the Municipalities to guarantee and pay long term debt and provide funds for its general operations. In addition, this Act improves the financing capacity of the Puerto Rico Sales Tax Financing Corporation (COFINA), a Commonwealth fund administered by GDB and the P.R. Secretary of Treasury. The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

The 6% corresponding to the Commonwealth's sales and use tax will be deposited in COFINA. From these funds during a transitory period from February 1, 2014 to June 30, 2014 the Commonwealth deposited \$43,440,184 in the FAM to be distributed to the Municipalities as follows:

- .2% will be deposited in a Municipal Development Fund to be distributed to the municipalities,
- .2% will be deposited in a Municipal Redemption Fund to guarantee and repay the municipalities long term debt and,
- .1% will be deposited in a Municipal Improvement Fund to finance capital improvement projects; these funds will be distributed based on legislation from the Commonwealth's Legislature.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
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**14. SALES TAXES (CONTINUED)**

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

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

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

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

The purpose of the Act No. 19 of January 24, 2014 is to create the Municipal Finance Corporation (COFIM) a public corporation and a component unit of the Governmental Development Bank of Puerto Rico (GDB) which may issue, pay or refinance long-term debt of municipalities. Principal and interest of these bonds and loans will be guaranteed with the municipal sales and use tax (1%). The Act includes provisions for municipalities that do not want to be covered by the Act. Special rules apply for those municipalities. The Act is effective on February 1, 2014.

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**15. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues consist primarily of funds received from the Commonwealth of Puerto Rico, "in lieu of tax" payments from the Quasi-Public Corporation, Puerto Rico Electric Power Authority, and federal financial assistance received from federal government. Grants and subsidies received from the Commonwealth of Puerto Rico and federal agencies include, among others, a general subsidy for urban development and capital improvements.

Intergovernmental revenues are accounted for through the General Fund except for those directly related to urban development and capital improvements, which are accounted for through the State Assignment, CDBG Funds and Other Governmental Funds.

**16. INTERFUND TRANSFERS**

Inter-fund transfers during the fiscal year ended at June 30, 2015, are summarized as follows:

Transfer Out	Transfer In	Purpose	Amount
General Fund	Other Governmental Funds	To cover operating expenditures	\$1,042,337
Other Governmental Funds	General Fund	To cover operating expenditures	<u>1,373,834</u>
<b>Total</b>			<b><u>\$2,416,171</u></b>

**17. EMPLOYEE'S RETIREMENT PLAN**

**a) Act No. 447 and System 2000 (until June 30, 2013)**

As of June 30, 2015 regular employees of the Municipality contribute to a cost-sharing multiple employer defined benefit retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems.

The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**17. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

**a) Act No. 447 and System 2000 (until June 30, 2013) (Continued)**

Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan.

There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits. The Municipality was required to contribute 9.275% of gross salary until the fiscal year ended on June 30, 2013. As stated in the Act, percent increases applicable to municipalities for fiscal years 2011-2012, 2012-2013 y 2013-2014 would be financed through the Commonwealth's budget approved by the Commonwealth's Legislature.

**b) Act No. 3 of 2013 (beginning July 1, 2013)**

In order to address its unfunded liability and rescue the System from insolvency, on April 4, 2013 the Commonwealth of Puerto Rico enacted Act No. 3 of 2013, representing a comprehensive reform of the ERS. Act No. 3 became effective on July 1, 2013 and amends the provisions of the different benefits structures under the ERS, including, but not limited to, the following:

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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17. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

*b) Act No. 3 of 2013 (beginning July 1, 2013) (Continued)*

- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment).
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.00%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
  - Act No. 447 regular employees: age 58 to 61,
  - Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
  - Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remain the same (55 years).
- Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).
- Due to changes to Special Laws, the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).
- Survivor benefits were modified.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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17. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

**b) Act No. 3 of 2013 (beginning July 1, 2013) (Continued)**

The actual combined employer and employee contributions for the current and past two years, which are equal to the statutory required contributions, are as follows:

<u>Fiscal year ended June 30,</u>	<u>Total</u>
2015	\$587,142
2014	304,496
2013	214,187
Totals	<u>\$1,105,825</u>

**c) Act No. 32 of 2013 (beginning July 1, 2013)**

On June 25, 2013, Act No. 32 was approved in order to amend Act No. 447 of 1957 by creating a new Article 5-117 Additional Uniform Contribution (AUC), with the purpose of solving the cash flow deficit of the System. For each fiscal year, beginning on July 1, 2013, the ERS will: 1) determine the portion of the AUC attributable to each participating employer based on the percentage each employer's contributions represent of the total employer contributions established for that fiscal year; and 2) send to the director of the P.R. Office of Management and Budget (OMB) and to each public corporation and municipality whose employees are covered by this Act, a certification of the AUC owed by each employer.

Act No. 32 defines the concept of the AUC as follows:

- For the fiscal year 2013-2014, the AUC will be one hundred and forty million dollars (\$140,000,000).
- For each subsequent fiscal year, beginning with the 2014-2015 fiscal year until 2032-2033, the AUC will be the contribution certified by the external actuary of the System, at least 120 days prior to the beginning of each fiscal year, deemed necessary to prevent that the value of the System's projected gross assets, during any subsequent fiscal year, be lower than one thousand million dollars (\$1,000,000,000). If, for any fiscal, the certified AUC is not available within the 120-day period prior to the beginning of the said fiscal year or within a shorter term with the consent of the OMB, the AUC will be equal to the contribution certified for the immediate preceding fiscal year.

Each public corporation and municipality covered by this Act is directly responsible for the payment of their corresponding certified AUC. However, for any fiscal year, the OMB will consign in the Commonwealth's General Budget enough resources to subsidy totally or partially the AUC certified to any public corporation, municipality or governmental entity, including the Judiciary Branch, whose operating expenditures are not fully or partially covered by the General Budget and for which the OMB, has subsequently determined it does not have the financial capacity to assume such obligation during the fiscal year.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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17. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)

c) *Act No. 32 of 2013 (beginning July 1, 2013) (Continued)*

For the fiscal year 2013-2014, \$41.142 million dollars were assigned to OMB through Commonwealth Legislative Resolution of Special Assignments No. 17 (RC 17-2013) for the total or partial subsidy of the AUC of any public corporation or municipality that the agency determined did not have the financial capacity to assume this obligation. The OMB's evaluation of a municipality's financial capacity was based on two parameters: financial indicators and population. The financial indicators to be evaluated were: profitability index (net income as a percentage of revenues); capital ratio (the proportion between the net position of the entity and the AUC) and debt margin ratio (the proportion between the AUC and the municipality's special ad valorem tax debt margin (CAE)). For the fiscal year ended June 30, 2014, the AUC partially subsidy received by the Municipality from OMB was \$184,541, which equaled the total contribution required.

In addition to the pension benefits described above, the Municipality is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the Municipality is required to finance costs related to the application of certain "Special Laws" issued by the Commonwealth Government. Those Special Laws granted increases in pensions and other benefits to retired employees of the Municipality such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 modified these Special Laws benefits as follows:

- Reduction in the Christmas bonus from \$600 to \$200 (current retirees),
- Elimination of summer bonus of \$100 (current retirees),
- No change in medical plan contribution of up to \$1,200 and medicine bonus of \$100 (current retirees).
- Eliminated all Special Law benefits to future retirees.

Act No. 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

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

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**17. EMPLOYEE'S RETIREMENT PLAN (CONTINUED)**

**d) *Statement No. 68 of the Governmental Accounting Standard Board***

The Statement No. 68 of the Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27 (GASB 68) became effective for the year ended June 30, 2015. 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 that meet certain criteria as is the case of the ERS.

As of the date of the release of this report, the ERS has not issued its 2014 basic financial statements, nor has it provided the Municipality with the required information to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB 68). Therefore, the accompanying governmental activities financial statements do not have any adjustments that will be necessary for the Municipality to account for its proportionate share of the net pension liability, deferred inflow of resources and deferred outflow of resources in the statement of net assets as of July 1, 2014 and June 30, 2015, as well as the effect in the recorded pension expense in the statement of activities for the year ended June, 30, 2015. Also, additional disclosures required by GASB 68 as well as required supplementary information have been omitted from these basic financial statements.

The pension costs recognized in the accompanying financial statements are equal to the statutorily required contributions, with a liability recorded for any unpaid required contributions, which is not in accordance with accounting principles generally accepted in the United States of America.

During the fiscal years ended June 30, 2015, 2014, and 2013, the Municipality and the participating employees contributed substantially all of the required contributions to ERS and System 2000. The combined actual contributions made by the Municipality and its participating employees to ERS and System 2000 amounted to \$587,142, \$304,496 and \$214,187 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

**18. COMMITMENTS AND CONTINGENCIES**

**A. CLAIMS AND JUDGMENTS**

The Municipality is, at present, a defendant in a number of legal proceedings that arise from alleged improper application of policies and negligence in the ordinary course of the Municipality's activities.

At June 30, 2015, the statement of net position presents a liability for claims & judgments amounting to \$312,419, related to a plaintiff for collection of money of construction permits.

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

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 counsels with the information currently available cannot determine the final outcome of these proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claim amounts.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**18. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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.

**C. OTHER COMMITMENTS**

At June 30, 2015 the General Fund had commitments of approximately \$339,730 for purchase orders or contracts that will be honored during the subsequent year.

**19. FUND BALANCE (DEFICIT)**

As of June 30, 2015, the fund balance (deficit) classifications are as follows:

Fund Balance	General Fund	Debt Service Fund	School Improvement Grant Fund	Other Governmental Fund	Total
<b>Committed for:</b>					
General Government	\$ 256,545	\$ -	\$ -	\$ -	\$ 256,545
Health and Sanitation	-	-	-	(359,379)	(359,379)
Urban Development	-	-	-	-	-
<b>Restricted for:</b>					
General Government	-	-	-	46,549	46,549
Public Safety	-	-	-	(4,159)	(4,159)
Public Works	-	-	-	-	-
Education	-	-	-	57,029	57,029
Health and Sanitation	-	-	-	4,690	4,690
Human Services and Welfare	-	-	-	-	-
Urban Development	-	-	-	831,352	831,352
Culture and Recreation	-	-	-	63,989	63,989
Debt Service	-	1,134,584	-	-	1,134,584
<b>Unassigned</b>	<u>(1,595,886)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,595,886)</u>
<b>Total Fund Balance</b>	<b><u>\$ (1,339,341)</u></b>	<b><u>\$ 1,134,584</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 640,071</u></b>	<b><u>\$ 435,314</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**20. ACCUMULATED DEFICIT**

The Municipality has an accumulated deficit of \$1,339,341 in the General Fund. Among the actions currently taken by management to reduce the accumulated deficit are; the inclusion of an account for the amortization of the accumulated deficit in the 2015-2016 operational budget, a reduction of the transitory employees maintains in the General Fund, an operational cost reduction plan and a reduction in the operational budget for the fiscal year 2015-2016. Also, the Municipality is identifying other intergovernmental revenues available by the State agencies, which can be used by the Municipality to cover operational costs.

**21. SUBSEQUENT EVENTS**

**a) Real Estate Held for Sale**

During past years, the Municipality participated in a construction of eight (8) apartments building for low and very low income families, financed with funds provided by the Federal program CDBG- Neighborhood Stabilization Program. After year ended June 30, 2015, the Municipality sold three (3) units of project. During August 2015, the Municipality send two units of Villa Navarro; one of these sell it of \$64,000 and another one by \$84,500. The federal program subsidy of these units are \$34,649 and \$50,993, respectively and generate a program income of \$29,351 and \$33,507. These sales are documented with Resolutions #10 and #11 approved during July 2015.

The third sale was realized durign November 2015 by \$49,500 and the federal program subidy was \$41,044 generate a program income of \$8,455. This sale was documented with Resolution #26 approved during November 2015.

**b) Section 108 Loan Guarantee**

On November 18, 2015, the Municipality's Legislature approves with Resolution #25 entered into a refinancing of Section 108 Loan Guarantee (Loan B-05-DC-72-0001-B).



**NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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

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

We have audited, in accordance with the Auditing Standards Generally Accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of Municipality of Maunabo, Puerto Rico (Municipality), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements. We were engaged to audit the financial statements of the governmental activities. These financial statements collectively comprise the Municipality's basic financial statements and have issued we report thereon dated March 4, 2016. We did not express an opinion on the governmental activities because we were unable to obtain sufficient and competent evidential matter related to the capital assets. The report on the governmental fund financial statements was qualified for the inter-fund balances.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not design to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

*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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. Findings 2015-001 and 2015-002.

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

A *significant deficiency* is a deficiency, or 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. There were no significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Municipality's Response to Findings**

Municipality's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

**Purpose of this Report**

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

*Nieves Velazquez & Co., P.S.C.*

NIEVES VELAZQUEZ & CO., P.S.C.  
San Juan, Puerto Rico  
March 4, 2016



Stamp No. 02725855 of the Puerto Rico Society of Certified Public Accountants has been affixed to the original of this report.



## **NIEVES VELAZQUEZ & CO., P.S.C.**

Certified Public Accountants and Financial Consultants

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

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

#### **Report on Compliance for Each Major Federal Program**

We have audited Municipality of Maunabo, Puerto Rico (Municipality) 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 Municipality's major federal programs for the fiscal year ended June 30, 2015. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

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

#### **Auditor's Responsibility**

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

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

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

**Opinion on Each of the Other Major Federal Programs**

In our opinion, Commonwealth of Puerto Rico, Municipality of Maunabo 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 other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2015.

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-006 and 2015-009. Our opinion on each major federal program is not modified with respect to these matters.

Municipality's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

**Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-003 to be a material weakness.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2015-004 to be a significant deficiency.

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

Report on Internal Control over Compliance (Continued)

Municipality's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Municipality's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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

*Nieves Velazquez & Co., P.S.C.*

**NIEVES VELAZQUEZ & CO., P.S.C.**

San Juan, Puerto Rico

March 4, 2016

Stamp No. 02725856 of the Puerto Rico Society of  
Certified Public Accountants has been affixed to  
the original of this report.



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Direct Program:			
Rural Housing Preservation Grants	10.433		\$ 18,814
Natural Resources Conservation Service- Emergency Watershed Protection Program	10.927		18,890
Pass-Through State – State Department of Education:			
Child and Adult Care Food Program	10.558	N/AV	39,482
<b>Total U.S. Department of Agriculture</b>			<u><b>77,186</b></u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Pass-Through State - Office of the Commissioner of Municipal Affairs:			
Community Development Block Grants – State's Program	14.228	14-FC 13-AB-FC 12-AB-FC 10-AB-FC 09-AB-FC 08-NSP 1-3 08-AB-FC-DR	667,849
Pass-Through State – State Department of Family:			
Emergency Solutions Grants Program	14.231	ESG2011	24,413
Pass-Through State – Public Housing Administration:			
Public and Indian Housing	14.850	N/A	322,595
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>1,014,857</b></u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Pass-through State – State Department of Justice:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-2693	10
<b>Total U.S. Department of Justice</b>			<u><b>10</b></u>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Pass-through the Commonwealth of Puerto Rico - Department of Education:			
Title I Grants to Local Education Agencies	84.010	2015-AF-0131	4,768,457
Twenty-First Century Community Learning Centers	84.287	2015-AF0069	307,594
<b>Total U.S. Department of Education</b>			<b><u>5,076,051</u></b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-Through State – Office of the Governor:			
State Homeland Security Program	97.073	EMW2012-SS-00049	16,319
Disaster Grants- Public Assistance	97.036	N/AV	446,140
<b>Total U.S. Department of Homeland Security</b>			<b><u>462,459</u></b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICE</b>			
Pass-Through State – Office of Governor, Regional Elderly Office:			
Special Program for Aging, Title III, Part B	93.045	2014-2015	76,261
Pass-Through State – Administration of Children and Families:			
Community Services Block Grant		2014-2015/2013- 2014	43,573
Child Care and Development Block Grant	93.575	241-2015-000103	382,021
<b>Total U.S. Department of Health and Human Service</b>			<b><u>501,855</u></b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$ 7,132,418</u></b>

See notes to the Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Municipality of **Maunabo**, Puerto Rico (Municipality) and is presented on the modified accrual basis. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements. The reporting entity is defined in Note (1) (A) to the general-purpose combined financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a) The accompanying Schedule of Expenditures of Federal Awards is prepared from Municipality's accounting records and is not intended to present financial position or the results of operations.
- b) The Municipality in accordance with the terms records the financial transactions and conditions of the grants, which are consistent with accounting principles generally accepted in the United States of America.
- c) Expenditures are recognized in the accounting period in which the liability is incurred, if measurable or when actually paid, whichever occurs first.

**3. FEDERAL CFDA NUMBER**

The CFDA numbers included in this Schedule are determined based on the program name, review of grant contract information and the Office of Management and Budget's Catalogue of Federal Domestic Assistance.

**4. PASS-THROUGH GRANTOR'S NUMBER**

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

**5. LOAN OUTSTANDING**

The Municipality had an outstanding loan balance under program Section 108 Loan Guarantee Assistance (CFDA No. 14.248), for which the grantor does not impose continuing compliance requirements. The outstanding balance of the loan at June 30, 2015 was \$1,998,000.

**6. MAJOR PROGRAMS**

Major programs are identified in the Summary of Auditor's Results Section of the Schedule of Findings and Questioned Costs.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**7. RECONCILIATION BETWEEN SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO EXPENDITURES IN FUND FINANCIAL STATEMENTS**

Total Federal expenditures from Schedule of Expenditures of Federal Awards	\$ 7,132,418
<b>State Expenditures:</b>	
Sports and Recreation	141,021
OMEP	53,422
Parent's Contributions	5,482
Activities Fund	16
Law 52	315,341
School Transportation	402,815
911 System	217
Municipal Hospital Fund	1,677,277
CEIM	163,157
Fund 20	1,124,794
Loans Funds	40,618
Special Revenues Funds Deposited on Current Account	70,518
Public Assistance Grants - State Contribution	<u>148,712</u>
Total Special Revenue Fund Expenditures in Fund Financial Statements (\$4,768,457 + \$6,507,352)	<b><u>\$ 11,275,808</u></b>

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**Section I – Summary of Auditor’s Results**

**Part I. Financial Statements**

<u>Opinion Units</u>	<u>Type of Opinions</u>
Governmental Activities	Disclaimer
General Fund	Qualified
Debt Service Fund	Unmodified
Title I Grant Fund	Unmodified
Municipal Hospital Fund	Qualified
Aggregated Remaining Fund	Qualified

Internal control over financial reporting:

- ❖ Material weakness (es) identified?   x   Yes    No
- ❖ Significant deficiency (ies) identified?   x   Yes    No reported
- Noncompliance material to financial statement noted?   x   Yes    No

**Part II. Federal Awards**

Internal control over major programs:

- ❖ Material weakness (es) identified?   x   Yes    No
- ❖ Significant deficiency (ies) identified?   x   Yes    None reported

Type of auditor's report issued on compliance for major programs **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?   x   Yes   x   No

**Identification of Major Programs**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants/State's Program
14.850	Public and Indian Housing
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)
84.287	Twenty-First Century Community Learning Centers
97.036	Disaster Grants – Public Assistance

Dollar threshold used to distinguish between Type A and Type B Program \$300,000

Auditee qualified as low-risk auditee?    Yes   x   No

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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Section II – Financial Statements Findings

<b>FINDING</b>	2015-001
<b>REQUIREMENT</b>	<b>ACCOUNTING RECORDS AND REPORTING SYSTEM</b>
<b>CONDITION</b>	The Municipality did not maintain an accounting system that generates accurate accounting information for the preparation of the financial statements in conformity with Generally Accepted Accounting Principles (GASP).
<b>CONTEXT</b>	<p>During our examination of the accounting cycle, we noted that the Municipality's management did not have adequate internal control procedures in place over the financial statements issued by the Municipality using the basis of accounting required by GAAP. The accounting records are maintained in the cash and budgetary basis and at the end of year, external consultants summarized in electronic worksheets the revenues, expenditures, capital assets transactions, accounts receivables, accounts payable and long term-debts. These worksheets are used for the preparation of the financial statements.</p> <p>Also, we noted the following conditions during the audit:</p> <ul style="list-style-type: none"><li>a. Accounting transactions are currently accounted simultaneously through a manual and a computerized accounting system for which no reconciliation procedures are made among them. The computerized system is only used to maintain the budget, to record the purchase orders and the issuance of the checks of the General Fund. These accounting systems does not provide for a self-balancing set of accounts for each fund operated by the Municipality;</li><li>b. Both accounting systems does not help management to distinguish between expenditures incurred and encumbrances and does not provide reliable financial information of transactions related with capital assets, accounts receivables, accounts payables and long-term debts.</li></ul>
<b>CRITERIA</b>	Article 8.010(b) of State Act Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, states that the Municipality must maintain its fund accounting in accordance with GAAP. In addition, Article 8.010(c) states that the system used must produce reliable reports and financial statements, provide complete information about the results of operations and include the necessary internal controls to account for all funds, capital assets and other assets.
<b>CAUSE</b>	The Municipality has not established effective internal control over procedures over the preparation of the financial statements and the transactions recorded on its accounting records.
<b>EFFECT</b>	The Municipality is not in compliance with Articles 8.010(b) and (c) of the State Law Number 81 of August 30, 1991.
<b>RECOMMENDATION</b>	We recommend management to establish the necessary internal controls and procedures in order to maintain a complete accounting system that provides trial balances by each fund in the modified accrual basis of accounting. In addition, the system should provide for the maintenance of the capital assets and the general long-term debt of the Municipality.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	During the fiscal year 2015-2016, the Municipality is in the process of implementing a new accounting software (ICity) in order to maintain all the accounting and financial transactions of the Municipality. Also, we expect that the new accounting system will help us prepare the Municipality's financial statements. Such implementation has been made by an external company.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**Section II – Financial Statements Findings**

<b>FINDING</b>	2015-002
<b>REQUIREMENT</b>	ACCOUNTING RECORDS – CAPITAL ASSETS
<b>CONDITION</b>	The Municipality does not have an effective system to account for capital assets, including the infrastructure assets.
<b>CONTEXT</b>	During our examination, we noted that the Municipality does not have adequate internal controls and procedures to ensure that all capital expenditures and dispositions are recorded in the capital assets subsidiary ledger. Also, the Municipality did not have adequate supporting documentation of the cost of the capital assets, including the infrastructure, reported in the statement of net position at June 30, 2015. This finding repeat in the prior year.
<b>CRITERIA</b>	Article 8.010(c) (3) of State Law Number 81 – “Ley de Municipios Autónomos del Estado Libre Asociado de Puerto Rico” of August 30, 1991, states that the Municipality should maintain updated property accounting records. Also, GASB 34 requires that all capital assets, including infrastructure, must be presented in the statement of net position and that there must be depreciated during its useful life.
<b>CAUSE</b>	The lack of an adequate capital assets subsidiary ledger, for financial reporting purposes, did not permit the proper accounting over the capital assets additions, the accumulated depreciation and the depreciation expense presented in the financial statements of the Municipality.
<b>EFFECT</b>	The Municipality's government wide financial statements do not present fairly, the financial position of the governmental activities, and the change in net position.
<b>RECOMMENDATION</b>	We recommend management and the Property Division of the Municipality to make an inventory of the capital assets, support it with adequate documentation and reconcile it with the capital assets subsidiary ledger.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	Actually, we are in the implementation process of a new accounting software. This accounting software has a Property Module, which we will be used to update the property subsidiary ledger in order to maintain adequate records of the capital assets transactions.

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

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Section III – Federal Award Findings and Questioned Costs

<b>FINDING</b>	2015-003
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	ELIGIBILITY
<b>CONDITION</b>	We selected 25 participants to test Eligibility compliance. From these, three (3) participants did not have in file the Enterprise Income Verification (EIV). One participant had differences in the Form 50058 and PAN third-party certification. Also, four (4) participants did not have the annual reexamination. Also, four (4) participants exceeded the applicable limits in income determined by HUD.
<b>CRITERIA</b>	The PHA must perform the following compliance audit requirements: <ul style="list-style-type: none"><li>a. As a condition of admission or continued occupancy, require the tenant and other family members to provide necessary information, documentation, and releases for the PHA to verify income eligibility (24 CFR Sections 5.230, 5.609 and 960.259).</li><li>b. For both family income examinations and reexaminations, obtain and document in the family file third-party verification of: (1) reported family annual income, (2) the value of assets, (3) expenses related to deductions from annual income, and (4) other factors that affect the determination of adjusted income or income-based rent (24 CFR Section 960.259).</li><li>c. Determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification in accordance with 24 CFR, Part 5, Subpart F (24 CFR Sections 5.601 et seq., and 24 CFR Sections 960.253, 960.255 and 960.259).</li><li>d. Reexamine family income and composition at least once every 12 months and adjust the tenant rent and housing assistance payment as necessary using the documentation from third-party verification (24 CFR Sections 960.253, 960.257 and 960.259).</li></ul>
<b>CAUSE</b>	The Program's internal controls failed to assure that the EIV System was used during the mandatory annual and interim reexamination as a third party income verification of the family income. In addition, the Program's staff failed to obtain all the required documentation necessary for the reexamination process.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Section 982.516 (a) (1), (2) and (g).
<b>RECOMMENDATION</b>	We recommend management to continue strengthening the internal controls and procedures designed to verify the family income and composition using third parties' information and the EIV System in each mandatory reexamination of the participants. Also, the Program should obtain all the necessary information related to the income and family composition of the participant's during the reexamination process. Also, the Program should be aware that all heads of household and members 18 years or older must signed the release of information during the reexamination process.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	To correct this finding we will gave instructions to the Program Coordinator in order to ensure that the annual reexaminations are performed and were calculated using the information obtain from third parties. The EIV System should be used during the mandatory annual and interim reexamination as a third party income verification. Also, the Program Coordinator have been instructed to strength the established internal control and procedures in order to obtain all the necessary information related to the income and family composition of the participant's during the reexamination process.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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Section III – Federal Award Findings and Questioned Costs

<b>FINDING</b>	2015-004
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	REPORTING
<b>CONDITION</b>	We found that the Program did not summarize the information of all the financial transactions related to assets, liabilities, revenues and expenditures of the Program, in a formal general ledger or other accounting system. The accounting information of the Program was maintaining in independent excel worksheets by month that were not integrated to a formal accounting system.
<b>CRITERIA</b>	Code of Federal Regulations 24, Subpart C, Section 85.20(a)(1) requires that fiscal control and accounting procedures must be sufficient to permit preparation of reports. Code of Federal Regulations 24, Subpart C, Section 85.20(b)(2) requires that grantees and sub-grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or sub-grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
<b>CAUSE</b>	The Program failed to establish adequate internal controls over the accounting records and the accurate submission of the monthly reports to the pass-through agency.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Subpart C, Section 85.20 (a)(1) and (b)(2).
<b>RECOMMENDATION</b>	The Program should continue improving its internal controls over the recording of the financial transactions in order to assure that the information submitted to the pass-through entity is adequately supported and recorded in accounting registers.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	To correct this situation, we engaged with an external consultant, in order to maintain a complete set of accounting records that assured proper accountability of the Program funds.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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**Section III – Federal Award Findings and Questioned Costs**

<b>FINDING</b>	2015-005
<b>FEDERAL PROGRAM</b>	PUBLIC AND INDIAN HOUSING – (CFDA 14.850) U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASS THROUGH STATE – PUBLIC HOUSING ADMINISTRATION
<b>REQUIREMENT</b>	COMPLIANCE AND INTERNAL CONTROL
<b>NONCOMPLIANCE</b>	SPECIAL TEST – DEPOSITORY AGREEMENTS
<b>CONDITION</b>	The Municipality failed to enter in a depository agreement with its financial institution. During the evaluation, we did not identify evidence of a depository agreement in the form required by HUD with the depository institution of the Municipality.
<b>CRITERIA</b>	Code of Federal Regulation 24, Section 982.156(a) states that unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depository by the PHA in accordance with HUD requirements. In addition, Code of Regulations 24, Section 982.156(c) states that the PHA must enter into an agreement with depository in the form required by HUD.
<b>CAUSE</b>	The Municipality's management failed to enter into agreements in the form required by HUD with its financial institution.
<b>EFFECT</b>	The Program is not in compliance with Code of Federal Regulation 24, Subpart D, Section 982.516 (a) and (c).
<b>RECOMMENDATION</b>	We recommend management to contact its financial institution and formalize, as soon as possible, the depository agreement in the form established by HUD.
<b>QUESTIONED COSTS</b>	None
<b>MANAGEMENT RESPONSE</b>	We will entered, as soon as possible, in a depository agreement, in the form established by HUD with the financial institution that maintains the deposits of the Program's funds.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF MAUNABO

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<u>FINDING NUMBER</u>	<u>COMPLIANCE</u>	<u>CFDA NUMBER</u>	<u>QUESTIONED COSTS</u>	<u>AUDITEE COMMENTS</u>
14-III-005	Allowance Activities - Housekeeping Service	14.228	None	Full corrective action was taken.
14-III-006	Reporting	14.228	None	Full corrective action was taken.
14-III-007	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2015-006
14-III-008	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2015-007
14-III-009	Special Test – Depository Agreements	14.850	None	No corrective action has been taken. Finding Reference 2015-008
14-III-010	Allowable Activities	84.287	None	Full corrective action was taken.
14-III-011	Procurement and Suspension and Debarment	84.010	None	Did not occurred in the Current Year.
13-III-07	Reporting	14.228	None	Full corrective action has been taken. Finding Reference 2014-006
13-III-08	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2014-007
13-III-09	Procurement and Suspension and Debarment	14.850	None	No corrective action has been taken. During fiscal year 2013-2014, the Program did not formalized construction contracts.
13-III-10	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008
13-III-11	Special Test – Depository Agreement	14.850	None	No corrective action has been taken. Finding Reference 2014-009
12-III-11	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008
12-III-12	Eligibility	14.850	None	No corrective action has been taken. Finding Reference 2014-007
12-III-13	Reporting	14.850	None	No corrective action has been taken. Finding Reference 2014-008
12-III-14	Special Test – Depository Agreement	14.850	None	No corrective action has been taken. Finding Reference 2014-009