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

MUNICIPIO DE SAN LORENZO
AUDITORÍA 2014-2015

30 DE JUNIO DE 2015

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2015

(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

TABLE OF CONTENTS

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

TABLE OF CONTENTS (CONTINUED)

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo, Puerto RIco

Report on the Basic Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan

The deferred outflows/inflows of resources and net pension liability in governmental activities of the governmental - wide statement of net position, and the pension expense for the current period change in the liability in governmental activities of the governmental - wide statement of activities, represents 100 percent, 100 percent, 32 percent, and 5 percent of the total deferred outflows/inflows of resources, total liability as of June 30, 2015, and total expense, respectively, for the fiscal year ended. These amounts were derived from the application of the proportional share included in the unaudited financial statements, notes and required supplementary information of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multiple-employer pension plan. We were unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan. Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described above in the "Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pension Plan" paragraph, the financial statements referred to above present fairly, all material respects, the respective financial position of the governmental activities of the Municipality as of June 30, 2015 and the respective changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, all material respects, the respective financial position of each major funds and the aggregate remaining fund information of the Municipality, as of June 30, 2015 and the respective changes in the financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis - of - Matter

Newly Adopted Standards

As discussed in Note 21 to the basic financial statements, the Municipality adopted new guidance, the Governmental Accounting Standards Board (GASB) 68, "Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68", during fiscal year 2015. Our opinions are not modified with respect to this matter.

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo, Puerto RIco

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

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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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality'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.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2016, on our consideration of the Municipality's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 31, 2016

Stamp **#E208378** of the
College of CPA's of
Puerto Rico is affixed
to the original.

The information in this section is not covered by the Independent Auditor's Report, but is presented as required supplementary information for the benefit of the readers of the Financial Report.

As management of the Municipality of San Lorenzo of the Commonwealth of Puerto Rico (the "Municipality"), we offer the reader of the Municipality's financial statements this narrative overview of the financial activities of the Municipality for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the Municipality's financial statements and with additional information that we have furnished in the Municipality's Basic Financial Statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Government-wide Highlights

The government-wide financial statements report information about the Municipality as a whole using the economic resources measurement focus and accrual basis of accounting:

- Net Position of the Municipality Governmental Activities, on a government-wide basis, increased at the close of fiscal year 2015 by $1,774,792, and 2014 decreased by ($16,805,271), as restated.

- The assets and deferred outflows of resources of the Municipality exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2015 by $9,746,740, and 2014 by $24,455,033, as restated *(See summary Statements of Net Position and analysis on page 10).*

- Prior period adjustment of $16,483,085 is primarily the result of the Municipality's unfunded pension obligations by the implementation of the GASB Statements No. 68 and 71.

- Total Revenues of the Municipality Governmental Activities, on a government-wide basis, decreased by ($1,130,962) (4.60%) and expenses decreased ($2,950,805) (11.84%) in comparison with year 2014.

- Total net change in net position, on a government-wide basis, amounted to $1,774,792, an increase of $1,452,606 (550.86%) with respect to prior year (2014) net change.

Fund Highlights

The fund financial statements provide detailed information about the Municipality's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting:

- At the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $2,024,744, a decrease of ($1,327,951) in comparison with the prior year.

- The General Fund reported an excess of expenditures over revenues and other financing sources and uses of ($227,636) and unassigned fund balance of ($1,422,149).

- The investment in capital assets for this year is $33.4 million representing an increase of $2.8 million (or 9.19%) in comparison with prior year.

- Loans principal payments were approximately $1,918,000, decreasing long-term debt.

- Resources available for appropriation were $598,163 more than budgeted for the General Fund.

General Financial Highlights

- The Net Investment in Capital Assets from Governmental Activities as of June 30, 2015 was $33,382,498 ($56,765,979 of capital assets, net of accumulated depreciation, related debt of $29,796,000 and unspent capital debt proceeds of $6,412,519).

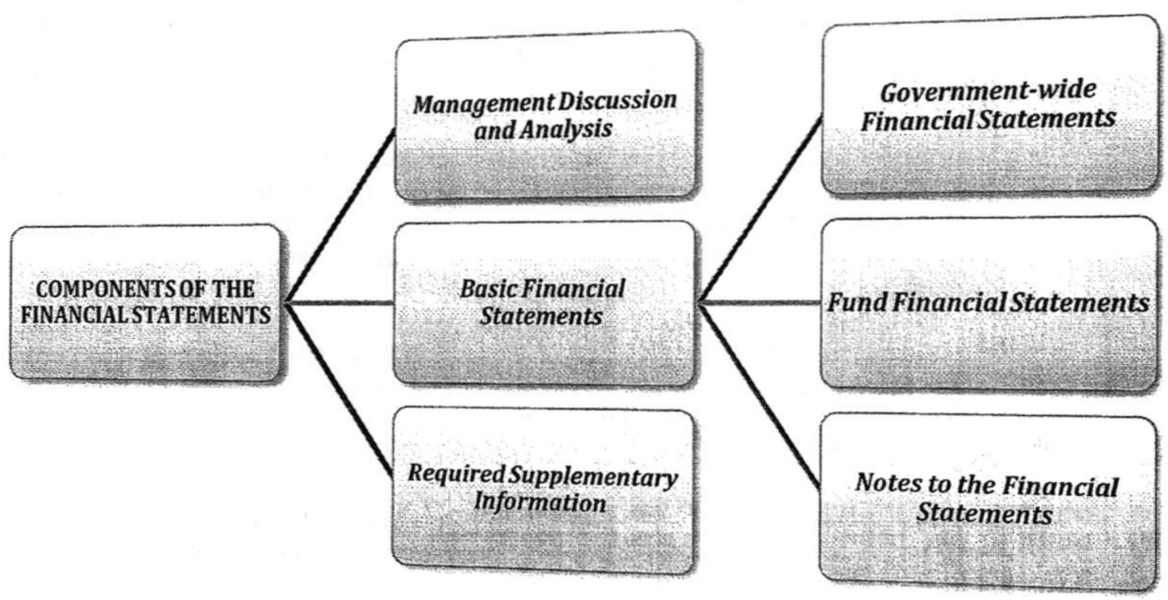
- Long term debt general and special obligations bonds decreased to $29,796,000, approximately a decrease of 5.90% ($2,022,489) with respect to prior year balance.

- Other noncurrent liabilities increases and net reductions from payments amounted to $486,514 and ($591,003), respectively.

- Estimated Revenues increased by $598,163 and total expenditures reflect excess of expenditures over budget of ($1,001,462). Total Variances amounted to ($403,299) or 2.81% of estimated resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements, which include four components: (1) Governmental-wide Financial Statements, (2) Fund Financial Statements, (3) Notes to the Basic Financial Statements, and (4) Required Supplementary Information. The focus is on both the Municipality as a whole (governmental-wide) and the major individual funds. The dual perspectives allow the reader to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government), and enhance the Municipality's accountability. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.



Basic Financial Statement

The Municipality's basic financial statements consist of two kinds of statements, each with a different view of the Municipality's finances. The government-wide financial statements provide both long-term and short-term information about the Municipality's overall financial status. The fund financial statements focus on major aspects of the Municipality's operations, reporting those operations in more detail than the government-wide financial statements.

- ***New Significant Accounting Standards Implemented***

  In fiscal year 2014-2015, the Municipality adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) that relate to pension activity:

  - Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and

  - Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

  Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Municipality's defined benefit pension plans. This Statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions.

  The significant impact to the Municipality of implementing Statement No. 68 is the reporting of the Municipality's unfunded pension liability on the Municipality's full accrual basis of accounting government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement.

  The measurement date for the pension liabilities is as of June 30, 2014. This date reflects a one year lag and was used so that these financial statements could be issued in an expedient manner. Activity (i.e. contributions made by the Municipality) occurring during fiscal year 2014-2015 are reported as deferred outflows of resources in accordance with Statement No. 71.

  In order to implement the Statements, a prior period adjustment was made to the Municipality's July 1, 2014 net position. This prior period adjustment decreased the Municipality's net position by $16,805,271 from $24,777,219 to $7,971,948 and reflects the reporting of: 1) net pension liabilities of $17,984,401, and 2) deferred outflows of resources of $1,426,857. Please refer to Note 17 for more information regarding the Municipality's pensions on pages 68 through 84.

  The adoption of Statement No. 68 has no impact on the Municipality's governmental fund financial statements, which continue to report expenditures equal to the amount of the Municipality's actuarially determined contribution (formerly referred to as the "annual required contribution"). The calculation of pension contributions is also unaffected by this Statement.

  Also, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* were issued by the Governmental Accounting Standards Board, but does not have impact on the Municipality's financial statements.

- ***Government-Wide Financial Statement***

  The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector businesses. They are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position –The *Statement of Net Position* presents information on all of the Municipality's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position.

Net Position = (Assets + Deferred Outflows of Resources) –
(Liabilities + Deferred Inflows of Resources)

Over time, increases or decreases in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. Other non-financial factors, such as the condition of the Municipality's roads and other infrastructure may need to be considered to assess the overall financial position of the Municipality.

Statement of Activities – The *Statement of Activities* presents information showing how the Municipality's net position changed during the year. All changes in net position (current year's revenues less expenses) are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *Statement of Activities* is focused on both the gross and net cost of various activities (including governmental and business-type activities). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various state activities and the degree to which activities are subsidized by general revenues.

Both of these government-wide financial statements distinguish functions of the Municipality that are principally supported by taxes and intergovernmental revenues (Governmental Activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The Governmental Activities of the Municipality include general government, public works and sanitation; public safety, culture and recreation, housing, welfare, and community development and education. These activities are primarily financed through property taxes, other local taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 23-24 of this report.

- ***Fund Financial Statement***

The fund financial statements provide more detailed information about the Municipality's most significant funds. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by Federal and Commonwealth regulations, as well by bond covenants.

The Municipality's basic services are included in governmental funds, which are used to account for essentially the same functions reported as Governmental Activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach the financial statements focus on near-term inflows and outflows of external resources, as well on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on a subsequent page that explains the relationship (or differences) between the government-wide and fund statements.

The governmental fund statements focus on major funds. The Municipality's major funds are the general fund (which accounts for the main operating activities of the Municipality) and funds that complies with a minimum criterion (percentage of the assets, liabilities, revenues or expenditures). Funds that do not comply with this criterion are grouped and presented in a single column as other governmental funds.

As required by GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $2,024,744. Of this amount the government's Unassigned Fund Balance (Deficit) in the General Fund is ($1,422,149), although, Other Governmental Funds reported an Unassigned (Deficit) Fund Balance of ($9,492). The remainder of fund balance of $3,456,385 is restricted indicating that is not available for new spending because it has already been compromise.

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. Both the Governmental Fund Balance Sheet and the Governmental Fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* provide a reconciliation to facilitate this comparison between *governmental funds* and *Governmental Activities.*

The Municipality maintains several individual governmental funds. Information is presented separately in the governmental fund *Balance Sheet* and in the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* for three major funds and an aggregate total for all non-major funds. The Municipality's major governmental funds are the General Fund, Head Start Fund, and Debt Service Fund.

The General Fund is the chief operating fund of the Municipality. At the end of the current fiscal year, the General Fund balance was ($1,422,149) all of which represents unassigned fund balance of the General Fund. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance (deficit) and total fund balance to total fund expenditures. This analysis present a negative percentage and is not in compliance with the financial policy for the Municipality of which needs to be greater than 15%.

The net decrease to fund balance for the General Fund for 2015 was ($227,636). This decrease was a result of a decrease in expenditures during the fiscal year by the amount of ($201,349) or 1.33% in comparison with the prior year to offset a decrease in revenues of ($761,833). The Municipality will continue streamlining of operations throughout the Municipality.

The government fund financial statements can be found on pages 25-28 of this report.

- ***Notes to the Basic Financial Statement***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements can be found on pages 29 through 86.

- ***Required Supplementary Information – Budgetary Comparison***

  Provides additional information to better understand the financial position of the Municipality and contains the Budgetary Comparison Schedule for the General Fund, are presented immediately following the notes to the financial statements and can be found on pages 87-88 of this report.

- ***Required Supplementary Information – Employees' Retirement System***

  The required supplementary information reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented immediately following the notes to the financial statements and can be found on pages 92-93 of this report.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Statements Analysis

The following table presents a summary of the Statements of Net Position as of June 30, 2015 and 2014:

Table 1

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
Statement of Net Position
As of June 30,

	Governmental Activities		Total	
			Dollar Change	Percent Change
	2015	2014	2015	2015
Current and Non-Current Assets	$ 8,186,990	$ 8,938,651	$ (751,661)	-8.41%
Capital Assets	56,765,979	55,555,786	1,210,193	2.18%
Total Assets	**64,952,969**	**64,494,437**	**458,532**	**0.71%**
Deferred Ouflows of Resources	**1,426,857**	**193,898**	**1,232,959**	**635.88%**
Current Liabilities	5,349,620	5,446,953	(97,333)	-1.79%
Unearned Revenues	2,973,977	2,213,952	760,025	34.33%
Long-Term Liabilities	30,181,169	32,378,499	(2,197,330)	-6.79%
Net Pension Liabilities	17,984,401	17,104,046	880,355	100.00%
Total Liabilities	**56,489,167**	**57,143,450**	**(654,283)**	**-1.14%**
Deferred Inlows of Resources	**143,919**	-	**143,919**	**100.00%**
Net Position:				
Net Investment in Capital Assets	33,382,498	30,572,358	2,810,140	9.19%
Restricted	3,719,950	3,626,174	93,776	2.59%
Unrestricted	(27,355,708)	(9,743,499)	(17,612,209)	180.76%
Total Net Position	**$ 9,746,740**	**$ 24,455,033**	**$ (14,708,293)**	**-60.14%**

Analysis of Net Position

As noted earlier, net position (assets + deferred outflow of resources over liabilities + deferred inflows of resources) may serve over time as a useful indicator of a government's financial position. Assets + deferred outflow exceeded Liabilities + deferred inflows of resources by $9,746,740 at the close of the most recent fiscal year.

The largest portion of the Municipality's net position reflects its investment in capital assets (e.g., land, buildings, equipment, and infrastructure) for $33,382,498; total capital assets ($74,058,712) less accumulated depreciation ($17,292,733) and less any related outstanding debt ($22,173,288) used to acquire or construct those assets. The Municipality uses these assets to provide services to its citizens and consequently, these assets are not available for future spending. The resources needed to repay the debt related to these capital assets must be provided from other sources, because capital assets are not generally liquidated for the purposes of retiring debt.

Restricted net position represents resources that are subject to external restrictions on how they may be used.

Unrestricted net position is the part of the net position that can be used to finance day-to-day operations without constrains established by debt covenants, enabling legislation or other legal requirements.

As of June 30, 2015 the Municipality presented unrestricted (deficit) net position of ($27,355,708). This balance was affected by long term obligations such as compensated absences $1,839,850, other debts for the amount of $2,665,352, and Net Pension Liability $17,984,401 for which the Municipality did not provide funding in previous budgets. Historically, such obligations have been budgeted on a pay as you go basis without providing funding for their future liquidation. The most significant variance from last year was a ($2,100,525) decrease in expenses in Solid Waste, due to the fact that the Municipality invested in its own fleet of trucks to collect and transport solid waste and no longer are paying a contract to a private company for those services.

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Changes in Net Position

The following table compares the revenues and expenses for the current and previous fiscal year.

Table 2

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
Changes in Net Assets
For Fiscal Year Ending June 30,

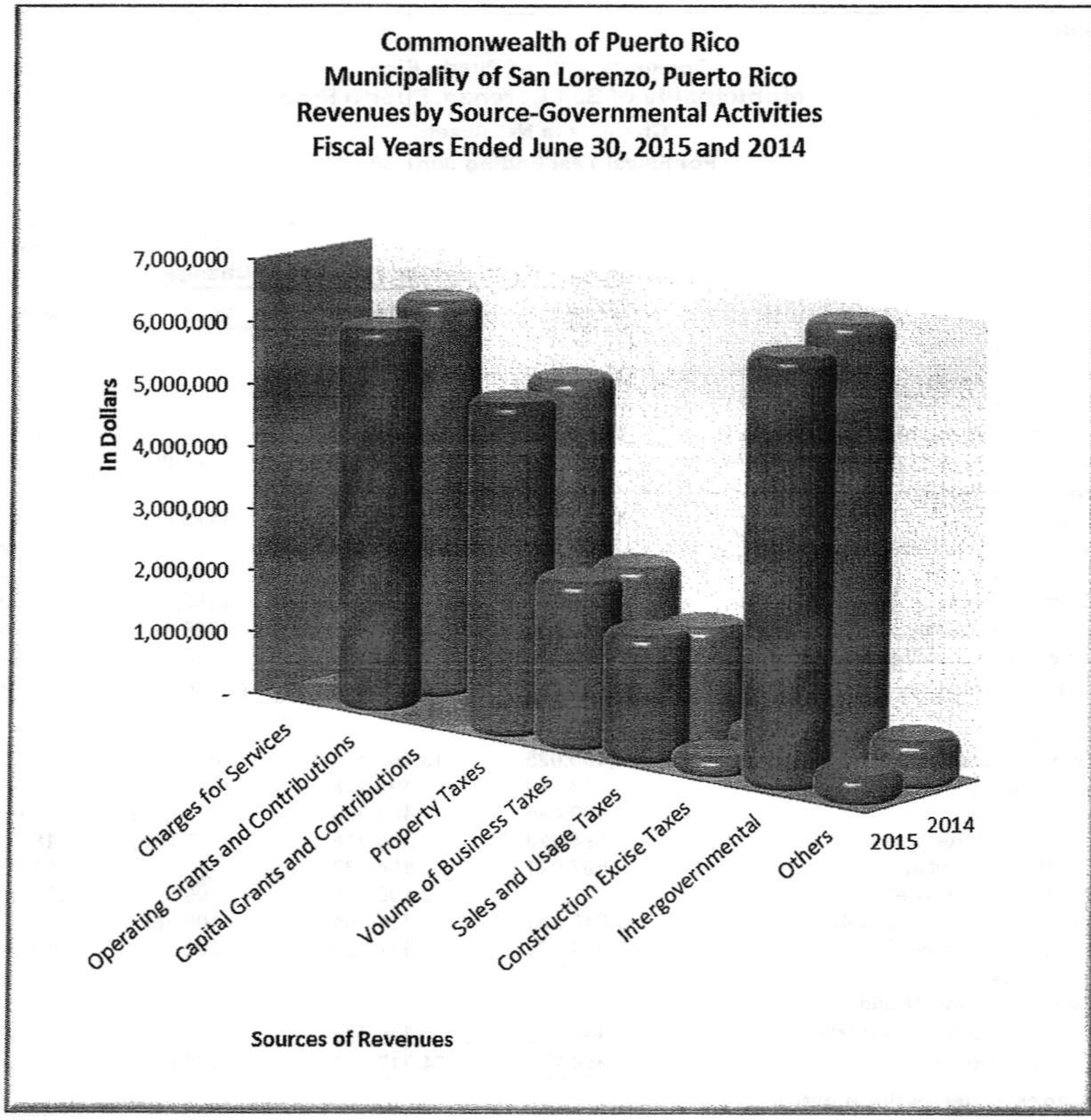
	Governmental Activities		Total	
			Dollar Change	Percent Change
	2015	2014	2015	2015
Revenues:				
Program Revenues:				
Charges for Services	$ 100	$ -	$ 100	0.00%
Operating Grants and Contributions	6,118,862	6,384,449	(265,587)	-4.16%
Capital Grants and Contributions	2,121	7,172	(5,051)	0.00%
General Revenues:				
Property Taxes	5,267,585	5,443,000	(175,415)	-3.22%
Volumen of Business Taxes	2,657,667	2,666,327	(8,660)	-0.32%
Sales and UsageTaxes	2,014,875	1,918,635	96,240	5.02%
Contruction Excise Taxes	346,586	501,736	(155,150)	-30.92%
Intergovernmental	6,590,256	6,919,451	(329,195)	-4.76%
Other General Revenues	465,854	754,098	(288,244)	-38.22%
Total Revenues	**23,463,906**	**24,594,868**	**(1,130,962)**	**-4.60%**
Expenses:				
General Administration	14,100,025	13,485,755	614,270	4.55%
Public Safety	658,159	796,258	(138,099)	-17.34%
Public Works	2,109,496	2,483,529	(374,033)	-15.06%
Culture and Recreation	598,923	736,148	(137,225)	-18.64%
Health and Sanitation	697,021	624,037	72,984	11.70%
Solid Waste Disposal	-	2,100,525	(2,100,525)	-100.00%
Human Services and Welfare	1,840,553	1,734,364	106,189	6.12%
Urban Development	514,320	1,517,029	(1,002,709)	-66.10%
Public Instruction	-	-	-	0.00%
Reimbursement of Funds	-	-	-	0.00%
Interest on Long-Term Debt	1,447,752	1,439,409	8,343	0.58%
Total Expenses	**21,966,249**	**24,917,054**	**(2,950,805)**	**-11.84%**
Changes in Net Position before Extraordinary Item	**1,497,657**	**(322,186)**	**1,819,843**	**-564.84%**
Extraordinary Item - Donated Capital Assets	277,135	-	277,135	100.00%
Net Position-Beginning, as Restated	7,971,948	24,777,219	(16,805,271)	-67.83%
Net Position-Ending	**$ 9,746,740**	**$ 24,455,033**	**$ (14,708,293)**	**-60.14%**

Analysis of Changes in Net Position

The Municipality's net position increased by $1,774,792 during the current fiscal year. For the most part, decreases in expenses as part of cost control to absolve inflation and more effective coordination of services to citizens, such as public work, culture and recreation, urban development, and to cover the interest cost. Also, non-capitalized expenses were incurred for maintenance of capital assets.

Figure 1 presents revenues comparison by sources of the Governmental Activities during the past two years:

FIGURE 1



Approximately 26.1% of the Municipality's revenues came from grants and contributions, 28.1% from intergovernmental, 22.4% from property taxes, and 23.4% from other sources. With respect to prior year, revenues decreased by approximately ($1,130,962), due primarily to a reduction in Intergovernmental Revenues and in Operating Grants and Contributions.

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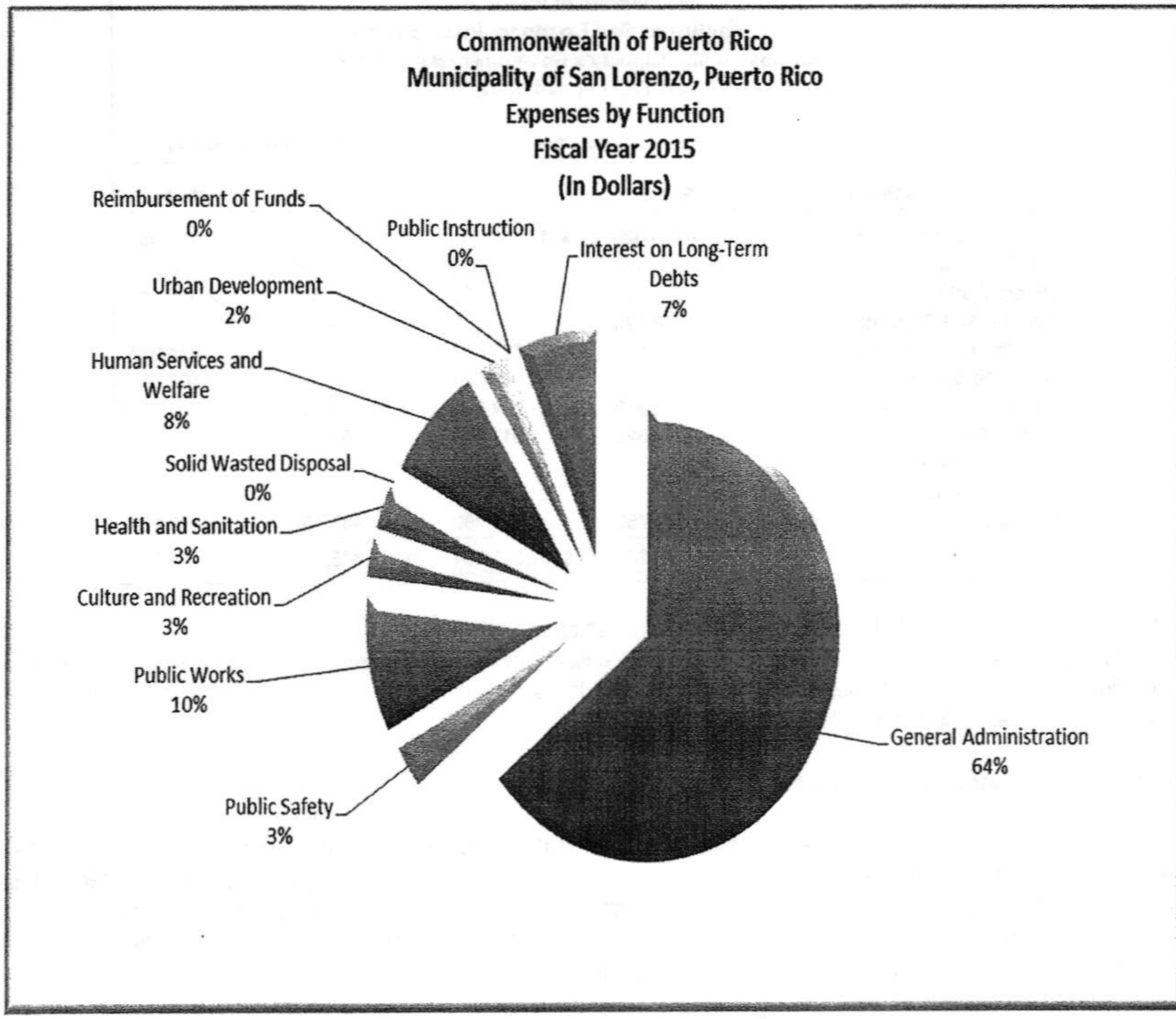
Figure 2 presents expenses by function of the Governmental Activities during the fiscal year 2014-2015:

FIGURE 2



The Municipality's expenses cover a range of services. The largest expenses are general administration with 64.2%, public works with 9.6%, human services and welfare with 8.4%, and interest costs with 6.6%. Program revenues of the Municipality covered 28% of total expenses.

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The following table focuses on the cost of each of the Municipality's largest functions/ programs as well as each functions/program's net cost (total cost less fees generated by the programs and program–specific intergovernmental aid):

Table 3

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
Net Cost of Municipality's Governmental Activities
Fiscal Years ended June 30,

	Total Cost of Services		Net Cost of Services	
Functions/Programs	**2015**	**2014**	**2015**	**2014**
General Administration	$ 14,100,025	$ 13,485,755	$ 10,557,211	$ 11,165,951
Public Safety	658,159	796,258	658,159	796,258
Public Works	2,109,496	2,483,529	2,107,375	2,476,411
Culture And Recreation	598,923	736,148	598,923	736,148
Health and Sanitation	697,021	624,037	697,021	624,037
Solid Waste Disposal	-	2,100,525	-	2,100,525
Human Services and Welfare	1,840,553	1,734,364	468,142	(985,320)
Urban Development	514,320	1,517,029	(689,417)	172,014
Public Instruction	-	-	-	-
Reimbursement of Funds	-	-	-	-
Interest on Long-Term Debts	1,447,752	1,439,409	1,447,752	1,439,409
Total	**$ 21,966,249**	**$ 24,917,054**	**$ 15,845,166**	**$ 18,525,433**

Those who directly benefited from the programs and other governments and organizations that subsidized certain programs with grants and contributions paid some of the cost of governmental activities in 2015. Other general revenues including property, volume of business license taxes, and the sales and usage taxes and intergovernmental revenues substantially covered the $15,845,166 net cost of services.

Governmental Funds Financial Statements Analysis

The focus of the Municipality's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Municipality's financing requirements. Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the government honors constraints on the specific purposes for which amounts in those funds can be spent. The following Table presents a comparison of the 2015 and 2014 fund balances:

Table 4

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
Fund Balance
As of June 30,

	FUND BALANCES									
	Restricted		Committed		Assigned		Unassigned		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
FUNDS:										
General	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,422,149)	$ (1,194,513)	$ (1,422,149)	$ (1,194,513)
Water Park	345,046	1,721,860	-	-	-	-	-	-	345,046	1,721,860
Debt Service	1,376,277	1,812,989	-	-	-	-	-	-	1,376,277	1,812,989
Other Governmental	6,001,420	4,477,964	17,938	-	18,640	6,122	(4,312,428)	(3,471,726)	1,725,570	1,012,360
Total	$ 7,722,743	$ 8,012,813	$ 17,938	$ -	$ 18,640	$ 6,122	$ (5,734,577)	$ (4,666,239)	$ 2,024,744	$ 3,352,696

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $2,024,744.

- *Restricted Fund Balance* of $6,001,420 in other governmental funds, consists of amounts with constraints put on their use by creditors, grantors, contributors, laws, regulations or enabling legislation. Examples of restrictions on funds are those for (1) purpose of fund (i.e., improve and construction of facilities), (2) grants for capital outlay, and (3) legislated amounts reserved for debt repayments.

- *Assigned Fund Balance*, $18,640, consists of amounts for specific purposes to cover purchase orders and contracts.

- *Unassigned Fund Balance*, ($4,312,428), represents the residual classification for the Municipality's General Fund.

The general fund is the operating fund of the Municipality. Unassigned (Deficit) Fund Balance of the General Fund represents 100% of total ending General Fund Balance that is not in compliance with Fund Balances Policies.

As of the end of the current fiscal year, the Municipality's governmental funds (as presented on the balance sheet on page 25) reported a combined fund balance of $2,024,744 thousand, which decreased from last year's total by $1,327,952 million. Some of the governmental funds are capital expenditure oriented and, therefore, may reflect capital expenditures.

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Table 5

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
General Fund
As of June 30,

Description	2015	2014	Dollar Change	Percentage Change
Revenues:				
Property Taxes	$ 3,417,790	$ 3,339,833	$ 77,957	2.33%
Volume of Business Taxes	2,657,667	2,666,327	(8,660)	-0.32%
Sales and Usage Taxes	1,286,531	1,282,431	4,100	0.32%
Intergovernmental	6,585,153	6,909,634	(324,481)	-4.70%
Construction Excise Taxes	346,586	501,736	(155,150)	-30.92%
Miscellaneous	398,499	754,098	(355,599)	-47.16%
Total Revenues	14,692,226	15,454,059	$ (761,833)	-4.93%
Expenditures:				
General Government	11,683,577	10,919,586	763,991	7.00%
Public Safety	344,852	462,444	(117,592)	-25.43%
Public Work	1,590,828	2,064,795	(473,967)	-22.95%
Culture and Recreation	421,666	602,153	(180,487)	-29.97%
Health and Sanitation	697,021	624,037	72,984	11.70%
Solid Waste Disposal	-	138,025	(138,025)	-100.00%
Public Instruction	-	-	-	0.00%
Human Services and Welfare	137,995	151,450	(13,455)	-8.88%
Urban Development	9,538	-	9,538	100.00%
Capital Outlay	86,541	210,877	(124,336)	-58.96%
Total Expenditures	14,972,018	15,173,367	(201,349)	-1.33%
Net Transfer In (Out)	52,156	(193,900)	246,056	-126.90%
Other Financing Sources	-	225,000	(225,000)	-100.00%
Net Increase (Decrease) in Fund Balance	**$ (227,636)**	**$ 311,792**	**$ (539,428)**	-173.01%

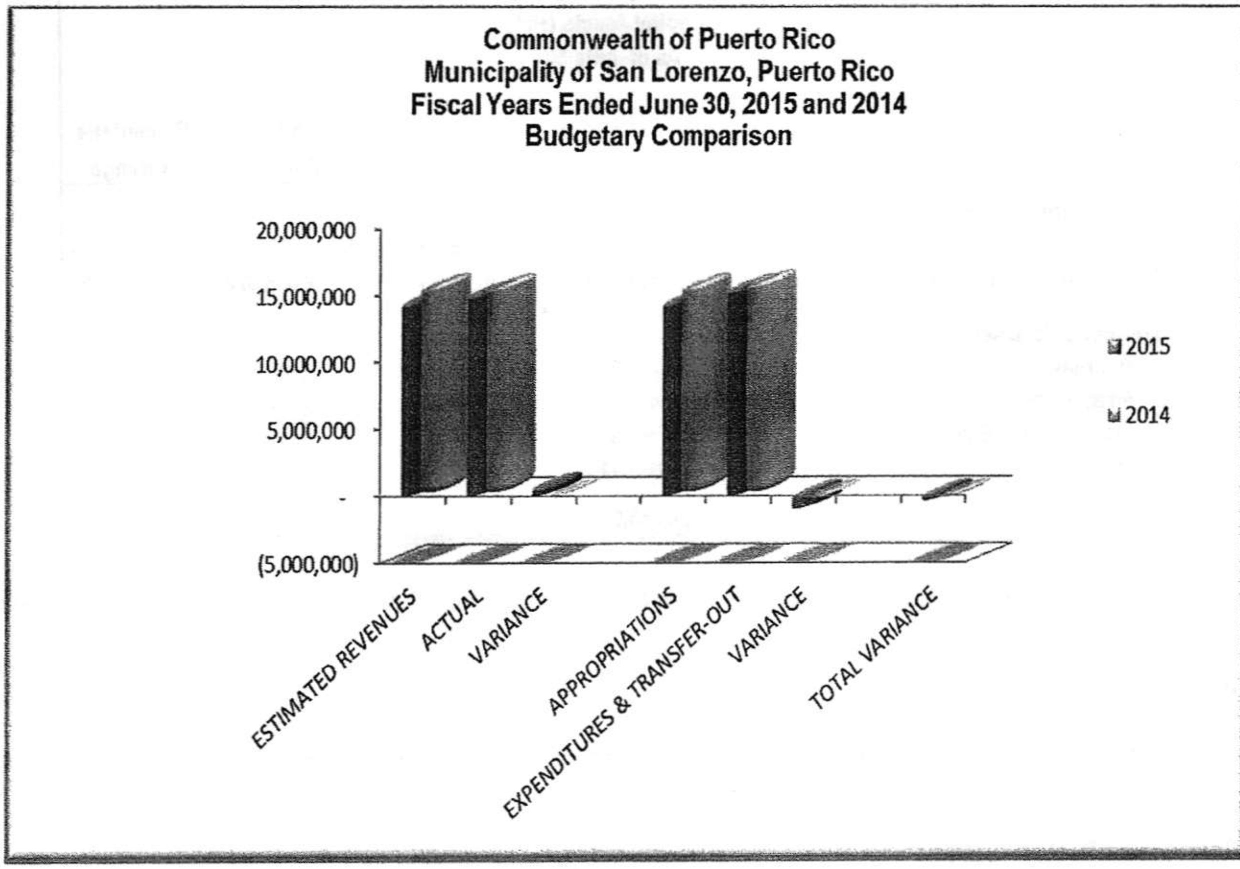
GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund original budget for the fiscal period 2014-2015 was lower than prior year budget by approximately $1.090 million due to a projected decrease in construction excise taxes revenues of $898,725 thousand. Actual revenues were more than the revised budgeted revenues by $598,163 due to a transfer of funds from debt service excess revenues during the year.

Also, the expenditures were more than projected in general government due to a debt plan payment that was not taken in consideration when preparing the budget. Total Variances amounted to ($1,001,462).

Figure 6 presents the budgetary comparison by their components during the fiscal year 2014-2015:

FIGURE 6



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the Municipality had $56.8 million (net of accumulated depreciation) in a broad range of capital assets, including buildings, parks, roads, bridges, land and equipment. This amount represents a net increase of $1,210,193 or 2.13% more than prior year.

The Municipality acquired a total of $2,511,022 of capital assets during the fiscal year 2014-2015 as follows:

- Construction in progress of buildings – $2,088,822.
- Improvements of Infrastructure – $24,900.
- Building and Improvements - $397,300

Others important repair and maintenance of infrastructure (not capitalized) was realized during the past year.

Table 6

Commonwealth of Puerto Rico
Municipality of San Lorenzo
Capital Assets (Net)
As of June 30,

	2015	2014	Dollar Change	Percentage Change
Non-depreciable assets:				
Land	$ 17,365,210	$ 17,088,075	$ 277,135	1.62%
Construcion in Progress	12,839,361	10,750,539	2,088,822	19.43%
Depreciable assets:				
Buildings	15,705,316	15,886,209	(180,893)	-1.14%
Infraestructure	8,456,040	8,748,684	(292,644)	-3.35%
Machinery and Equipment	388,936	408,457	(19,521)	-4.78%
Motor Vehicles	2,011,116	2,673,822	(662,706)	-24.78%
Total	**$ 56,765,979**	**$ 55,555,786**	**$ 1,210,193**	2.18%

Additional information on the Municipality's capital assets can be found on Note 9 of the financial statements on page 59 of this report.

Debt Outstanding

As of year-end, the Municipality had $48,871,720 in debts (bonds and other long-term debts) outstanding compared to $36,323,691 of last year, as restated.

Outstanding Debt at Year-End

The Municipality made principal payments of ($1,918,000) during the current year. Also, this amount was affected by increases from Net Pension Liability of $880,355 and Compensated Absences of $154,437.

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Table 7

Commonwealth of Puerto Rico
Municipality of San Lorenzo, Puerto Rico
Outstanding Long-term Debt
As of June 30,

	2015	2014	Dollar Change	Percentage Change
General and Special Obligation Bonds	$ 29,796,000	$ 31,714,000	$ (1,918,000)	-6.05%
Net Pension Liability	17,984,401	17,104,046	880,355	100.00%
Law Number 42 - MRCC	518,373	534,460	(16,087)	-3.01%
Law Number 146 - MRCC	211,102	223,518	(12,416)	-5.55%
Waste Management	1,842,500	1,962,500	(120,000)	-6.11%
Christmas Bonus	93,377	203,800	(110,423)	-54.18%
Compensated Absences	1,839,850	1,685,413	154,437	9.16%
Total	$ 52,285,603	$ 53,427,737	$ (1,142,134)	-2.14%

The Municipality levies an annual special tax of 1.50% of the assessed value of real property located within the Municipality, which is not exempted by law. The proceeds of this tax are required to be credited to the Debt Service Fund for payment of general obligation bonds and notes of the Municipality. The amount of general obligation debt that the Municipality can issue is limited by law to 10% of the total assessment of the taxable property located within the boundaries of the Municipality.

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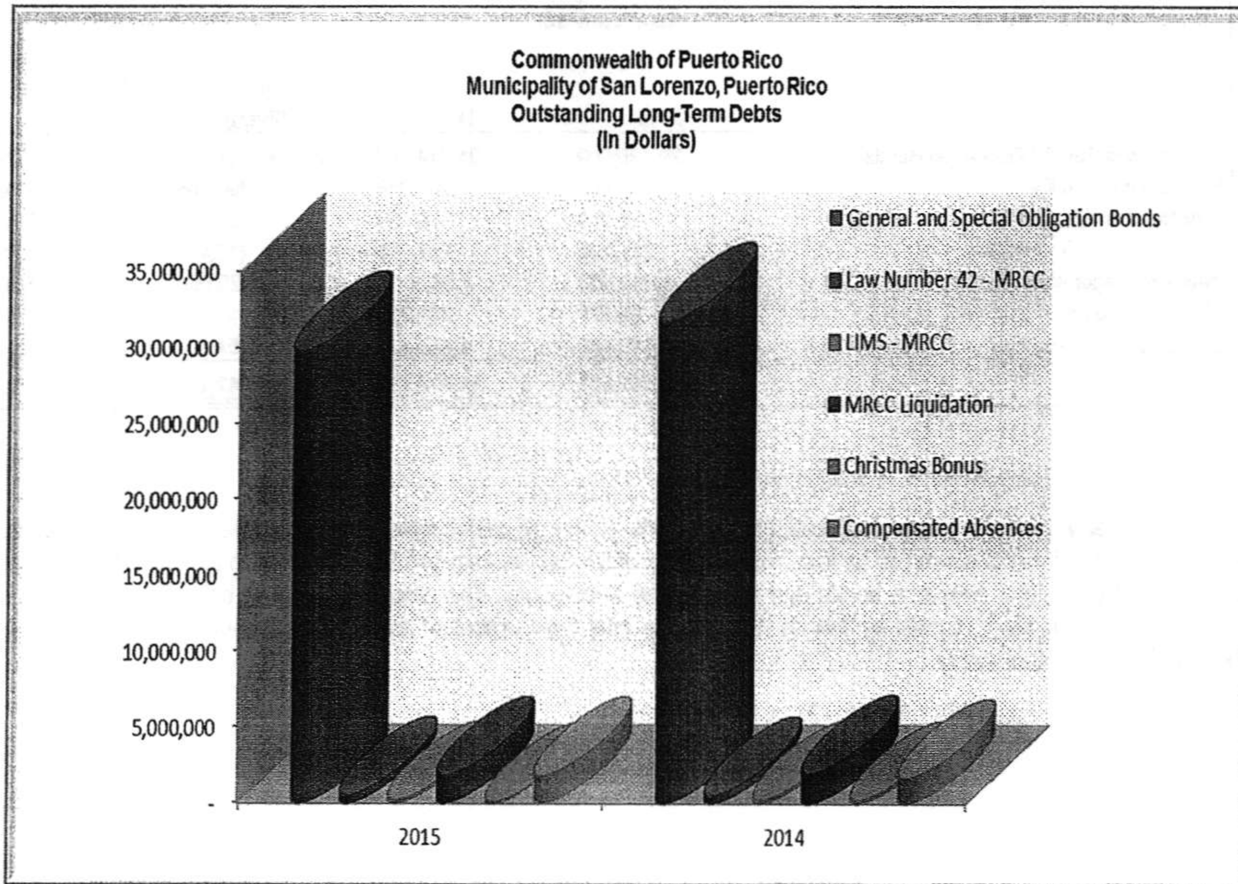
Figure 8 presents the components of long-term debts during the fiscal year 2014-2015:

FIGURE 8



More detailed information about the Municipality's long-term liabilities is presented in Note 10 to the financial statements on pages 60-63 of this report.

Deferred Outflows / Inflows of Resources

Deferred Outflows of Resources

Deferred outflows of resources are new to the Municipality's Statement of Net Position for this fiscal year. This classification balance, although similar to "assets," is set apart because these items do not meet the technical definition of being a Municipality asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense/expenditure.

The most significant deferred outflow of resources reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. GASB 71 requires that contributions made during the fiscal year to the retirement system be reported as deferred outflows of resources. Consequently, the majority of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the Municipality as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue or an increase to net position.

Deferred inflows of resources related to pensions represent a net amount attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Note 6 to the financial statements on page 57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Municipality is a political legal entity with full legislative and administrative powers in every area of municipal government, with perpetual existence and legal personality, separate and independent from the central government of Puerto Rico. The Municipal Government comprises the executive and legislative branches. The executive power is exercised by the Mayor and the legislative by the Municipal Assembly, which has 14 members. The Mayor and the Municipal Assembly are elected every four years in general elections.

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

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2015 budget. One of the factors is the economy, which is affected by the population, family income and unemployment growth of the Municipality.

The Municipality has a higher unemployment rate compared to all municipalities in Puerto Rico. As of June 2015 the unemployment rate of the Municipality averaged 14.1% as compared to 12.6% in Puerto Rico (Source Workforce Development Administration of the Commonwealth of Puerto Rico).

The above-mentioned factors, among others, were taken into account when adopting the Municipality's budget for fiscal year 2015-2016. Amounts available for appropriations (revenues) in the General Fund Budget are $14,962,722, an increase of $344,869 over the 2014-2015 original budget of $14,364,559. Property taxes and other local charges for services, licenses and permits are expected to lead this increase. The Municipality will use the increase in revenues to finance programs we currently offer and to account for the deficit effect on the resources available to expend. Budgeted expenditures are expected to rise slightly below of revenue increases.

If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of fiscal year 2015-2016.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

The Municipality's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Municipality's Finance Department at (787) 736-3511, or PO Box 1289, San Lorenzo, PR 00754.

COMMONWEALTH OF PUERTO RICO

AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF NET POSITION

JUNE 30, 2015

		GOVERNMENTAL ACTIVITIES
ASSETS:		
Cash and Investments	$	2,090,121
Cash with Fiscal Agent		5,220,230
Receivables (net):		
Property Taxes		35,854
Sales and Usage Taxes		98,964
Due from Governmental Units		270,843
Federal Grants		452,105
Other Receivables		18,873
Capital Assets:		
Land, Improvement and Construction in Progress		30,204,571
Other Capital Assets [Net of Depreciation]		26,561,408
Total Capital Assets		56,765,979
TOTAL ASSETS		**64,952,969**
DEFERRED OUTFLOWS OF RESOURCES:		
Contributions to Employees Retirement System		1,426,857
TOTAL DEFERRED OUTFLOWS OF RESOURCES		**1,426,857**
LIABILITIES:		
Accounts Payable and Accrued Expenses		512,964
Accrued Interest		560,583
Due to Governmental Units		156,040
Unearned Revenues - Volume of Business Taxes		2,973,977
Noncurrent Liabilities:		
Due Within One Year		4,120,033
Due in More than One Year		30,181,169
Net Pension Liabilities		17,984,401
TOTAL LIABILITIES		**56,489,167**
DEFERRED INFLOWS OF RESOURCES:		
Unamortized Investment in Employees Retirement System		143,919
TOTAL DEFERRED INFLOWS OF RESOURCES		**143,919**
NET POSITION:		
Net Investment in Capital Assets		33,382,498
Restricted for:		
Capital Projects		431,679
Debt Service		2,961,277
Community Development Projects		326,994
Unrestricted (Deficit)		(27,355,708)
TOTAL NET POSITION	**$**	**9,746,740**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
Governmental Activities:					
Mayor and Municipal Legislature	$ 2,464,195	$ -	$ -	$ -	$ (2,464,195)
General Government	11,635,830	100	3,542,714	-	(8,093,016)
Public Safety	658,159	-	-	-	(658,159)
Public Works	2,109,496	-	-	2,121	(2,107,375)
Culture and Recreation	598,923	-	-	-	(598,923)
Health and Sanitation	697,021	-	-	-	(697,021)
Solid Waste Disposal	-	-	-	-	-
Human Services and Welfare	1,840,553	-	1,372,411	-	(468,142)
Urban Development	514,320	-	1,203,737	-	689,417
Interest on Long-Term Debt	1,447,752	-	-	-	(1,447,752)
Total Governmental Activities	**$ 21,966,249**	**$ 100**	**$ 6,118,862**	**$ 2,121**	**(15,845,166)**

General Revenues:	
Taxes:	
PropertyTaxes, levied for General Purposes	3,417,790
PropertyTaxes, levied for Debt Service	1,849,795
Volume of Business Taxes	2,657,667
Sales and Usage Taxes	2,014,875
Construction Excise Taxes	346,586
Intergovernmental	6,590,256
Rent	-
Miscellaneous	465,854
Extraordinary Item - Donated Capital Assets	277,135
Total General Revenues	17,619,958
CHANGES IN NET POSITION	**1,774,792**
Net Position – Beginning of Year, As Restated	7,971,948
NET POSITION – ENDING OF YEAR	**$ 9,746,740**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2015

	GENERAL FUND	WATER PARK FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash	$ 315,917	$ 345,046	$ -	$ 1,429,158	$ 2,090,121
Cash with Fiscal Agent	2,126	-	3,486,006	1,732,098	5,220,230
Receivables:					
Property Taxes	-	-	35,854	-	35,854
Sales and Usage Taxes	98,964	-	-	-	98,964
Due from Governmental Units	46,688	-	-	224,155	270,843
Federal Grants	-	-	-	470,978	470,978
Due from Other Funds	1,455,984	-	-	-	1,455,984
Total Assets	$ 1,919,679	$ 345,046	$ 3,521,860	$ 3,856,389	$ 9,642,974
LIABILITIES:					
Account Payable	$ 165,123	$ -	$ -	$ 347,841	$ 512,964
Bond and Notes	-	-	1,585,000	-	1,585,000
Accrued Interest	-	-	560,583	-	560,583
Due to Governmental Units	156,040	-	-	-	156,040
Due to Other Funds	-	-	-	1,455,984	1,455,984
Unearned Revenues - Volume of Business Taxes	2,973,977	-	-	-	2,973,977
Total Liabilities	3,295,140	-	2,145,583	1,803,825	7,244,548
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues - Commonwealth of Puerto Rico	46,688	-	-	-	46,688
Unavailable Revenues - Federal Grants	-	-	-	326,994	326,994
Total Deferred Inflows of Resources	46,688	-	-	326,994	373,682
FUND BALANCES (DEFICITS):					
Restricted	-	345,046	1,376,277	6,001,420	7,722,743
Committed	-	-	-	17,938	17,938
Assigned	-	-	-	18,640	18,640
Unassigned (Deficit)	(1,422,149)	-	-	(4,312,428)	(5,734,577)
Total Fund Balances	(1,422,149)	345,046	1,376,277	1,725,570	2,024,744
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	$ 1,919,679	$ 345,046	$ 3,521,860	$ 3,856,389	$ 9,642,974

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND	WATER PARK FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	$ 3,417,790	$ -	$ 1,849,795	$ -	$ 5,267,585
Volume of Business Taxes	2,657,667	-	-	-	2,657,667
Sales and Usage Taxes	1,286,531	-	728,344	-	2,014,875
Construction Excise Taxes	346,586	-	-	-	346,586
Intergovernmental	6,585,153	-	-	3,603,029	10,188,182
Federal Grants	-	-	-	2,547,497	2,547,497
Rent	75,533	-	-	-	75,533
Miscellaneous	322,966	2,121	-	67,455	392,542
Total Revenues	14,692,226	2,121	2,578,139	6,217,981	23,490,467
EXPENDITURES:					
Current:					
Mayor and Municipal Legislature	1,876,978	-	-	-	1,876,978
General Government	9,806,599	-	-	1,699,040	11,505,639
Public Safety	344,852	-	-	57,493	402,345
Public Works	1,590,828	-	-	271	1,591,099
Culture and Recreation	421,666	-	-	-	421,666
Health and Sanitation	697,021	-	-	-	697,021
Solid Waste Disposal	-	-	-	-	-
Human Services and Welfare	137,995	-	-	1,443,802	1,581,797
Urban Development	9,538	-	-	390,827	400,365
Capital Outlay	86,541	993,733	-	1,751,979	2,832,253
Debt Service:					
Bond Issuance Costs	-	-	-	-	-
Principal	-	-	2,061,503	-	2,061,503
Interest and Other Charges	-	-	1,447,752	-	1,447,752
Total Expenditures	14,972,018	993,733	3,509,255	5,343,412	24,818,418
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(279,792)	(991,612)	(931,116)	874,569	(1,327,951)
OTHER FINANCING SOURCES (USES):					
Proceed of Bonds	-	-	-	-	-
Transfers – In	309,534	209,316	803,939	47,957	1,370,746
Transfers – Out	(257,378)	(594,518)	(309,534)	(209,316)	(1,370,746)
Total Other Financing Sources (Uses)	52,156	(385,202)	494,405	(161,359)	-
Net Change in Fund Balances	(227,636)	(1,376,814)	(436,711)	713,210	(1,327,951)
Fund Balances (Deficit) – Beginning, as Restated	(1,194,513)	1,721,860	1,812,988	1,012,360	3,352,695
FUND BALANCES (DEFICIT) – ENDING	$ (1,422,149)	$ 345,046	$ 1,376,277	$ 1,725,570	$ 2,024,744

06/04/2016

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Total Fund Balances – Government Funds (Page 25)		**$ 2,024,744**
Amount reported for Governmental Activities in the Statement of Net Position (Page 23) 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	$ 30,204,571	
Depreciable Capital Assets	43,854,141	
Accumulated Depreciation	(17,292,733)	
Total Capital Assets		56,765,979
Deferred Outflows of Resources in Governmental Activities are paid in the current available soon period and therefore are reported in the funds.		1,426,857
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 unavailable in the funds:		
CDBG	326,994	
Child and Adult Care Food Program	-	
Christmas Bonus	46,688	
Total Unavailable Revenues		373,682
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(143,919)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General Obligation Bonds and Special Obligations Bonds	(28,211,000)	
Christmas Bonus	(93,377)	
Law Number 146-MRCC	(211,102)	
Law Number 42-MRCC	(518,373)	
Con Waste Debt	(1,842,500)	
Net Pension Liability	(17,984,401)	
Compensated Absences	(1,839,850)	
Total Long-Term Liabilities		(50,700,603)
Total Net Position of Governmental Activities (Page 23)		**$ 9,746,740**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF SAN LORENZO

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

Net Change in Fund Balances – Government Funds (Page 27)		**$ (1,327,951)**
Amount reported for Governmental Activities in the Statement of Activities (Page 24) 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:		
Capital Outlays	$ 2,832,253	
Depreciation Expense	(1,899,195)	
Excess of Capital Outlays over Depreciation Expense		933,058
Revenues in the Statement of Activities that do not provide current financial resources are reported as revenues in the funds and vice versa:		
Christmas Bonus	(55,212)	
Community Development Block Grant	69,952	
Child and Adult Care Food Program	(41,301)	
Total of Revenues		(26,561)
Donations of capital assets increase net assets in the Statement of Activities, but do not appear in the governmental funds because they are not financial resources.		277,135
Repayment of long-term principal is expenditure in the governmental funds, but issuing debt reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		2,061,503
Some expenses reported in the Statement of Activities do not require the use of current financial resouces and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Christmas Bonus	110,423	
Decrease in Debt Con Waste	120,000	
Increase in Compensated Absence	(154,437)	
Change in Net Pension Liability	(218,378)	
Total Additional Expenses		(142,392)
Change in Net Position of Governmental Activities (Page 24)		**$ 1,774,792**

The accompanying Notes to the Basic Financial Statements are an integral part of this statement.

1. FINANCIAL REPORTING ENTITY

The accompanying financial statements present information on the financial activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

A. Organization

The Municipality was founded in the year 1811, and operates as a 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 14 Legislators also elected in the general elections of Puerto Rico for a four-year period.

The Municipality provides services such as: health, public works, sanitation, aids and services to low-income and elderly citizens, public safety, housing and urban development, culture and recreation, planning, zoning and other general and administrative services. As a government entity, the Municipality is exempt from both federal and state taxes.

B. Reporting Entity

A reporting entity is comprised of (1) the primary government, (2) component unit organizations for which the primary government is financial accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and they are financially accountable to the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Municipality and for which the Municipality is financial accountable.

The accompanying basic financial statements include all departments and organizations units whose funds are under the custody and control of the Municipality. In evaluating the Municipality as a reporting entity, management has addressed all the potential component units. GASB Accounting Standards Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure,* requires the inclusion of organizations that raise and hold funds for the direct benefit of the primary government.

GASB Accounting Standards Codification Section 2100, *Defining the Financial Reporting Entity,* describes the criteria for determining which organizations, functions, and activities should be considered part of the Municipality for financial reporting purposes. The primary criteria include appointing a voting majority of an organization's governing body, and the Municipality's ability to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality. A second criteria used in evaluating potential component units is if the nature and significance of the relationship between the organization and a primary government are such that to exclude the organization from the financial reporting entity would render the financial statements misleading or incomplete.

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

1. FINANCIAL REPORTING ENTITY – continuation

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34,* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

There are two methods of presentation of the component unit in the financial statements: blending – the financial data of the component unit's balances and transactions in a manner similar to the presentation of the Municipality's balances and transactions; and discrete – presentation of the component unit's financial data in column separate from the Municipality's balances and transactions. The relative importance of each criterion must be evaluated in light of specific circumstances in order to determine which components units are to be included as part of the reporting entity. Based on these criteria, there are no other organizations which should be included in these basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements present the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Municipality, as of June 30, 2015, and the respective changes in financial position, and the cash flows, where applicable, thereof for the fiscal year then ended.

A. Financial Statement Presentation

The basic financial statements of the Municipality have been prepared in conformity with accounting principles generally accepted in the United Stated of America as applicable to local governmental units (GAAP). The basic financial statements include both government-wide (based on the Municipality as a whole) and fund financial statements, which provide a more detailed level of financial information. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as Governmental Activities.

The financial information of the Municipality is presented in this report as follows:

Required Supplementary Information – Management's Discussion and Analysis

Management's discussion and analysis is required supplementary information that introduces the basic financial statements and provides an analytical overview of the Municipality's financial activities.

Government-wide Financial Statements (GWFS)

While separate government-wide and fund financial statements are presented, they are interrelated. The GWFS (the *Statement of Net Position* and the *Statement of Activities*) report information of all the activities of the Municipality. For the most part, the effect of interfund activity has been removed from these financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's Puerto Rico Electric Power Authority function of the government. Elimination of this charges would distort the direct cost and program revenue reported for the various functions concerned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

The focus of the *Statement of Net Position* is designed to be similar to bottom line results for the Municipality's Governmental Activities. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The *Statement of Net Position* presents the reporting entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net positions are classified as net investment in capital assets, restricted when constraints are placed on them that are imposed by external parties or by laws or regulations, and unrestricted. Designations solely imposed by the Municipality's management are not presented as restricted net position.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for the different Governmental Activities of the Municipality and for each function. *Direct expenses* are those that are clearly identifiable with a specific function or segment. In addition, to the extent that indirect costs are allocated to the various functions, the program expenses will include both direct and indirect costs. *Program Revenues* include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as *general revenues*.

Governmental Funds Financial Statements (GFFS)

The GFFS [the *Balance Sheet*, and the *Statement of Revenues, Expenditures and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category (Governmental Activities) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Non-major funds are summarized into a single column.

Each fund is a separate accounting entity with a self-balancing set of accounts used to record the financial transactions and balances of that entity. Individual funds have been established as stipulated by legal provisions or by administrative discretion. The Municipality uses fund accounting, which is designed to demonstrate legal compliance and to segregate transactions related to certain government functions or activities.

The Municipality reports the following major governmental funds:

General Fund – This is the general operating fund of the Municipality. It is used to account for all financial resources, except those required to be accounted for in another fund.

Water Park Fund – This is used to account for the construction of the Water Park in San Lorenzo, Puerto Rico.

Debt Service Fund – This is used to account for the accumulation of resources for, and the payment of long-term debt principal and interests.

The Municipality periodically undertakes a comprehensive evaluation of its fund structure to ensure that it complies with all aspects that are of importance to users of general purpose external financial reports. Consequently, all superfluous funds and some operational funds currently used by the Municipality in the day-to-day accounting procedures have not been reported as individual governmental funds in the accompanying fund financial statements. Accordingly, the accompanying fund financial statements include only the minimum number of funds consistent with legal and operating requirements and, consequently, certain types of similar operational funds have been combined into single funds in the accompanying fund financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2015 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund Balance – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2015.

Since the GFFS are presented in different measurement focus and basis of accounting than the GWFS, reconciliation is presented and separate explanation for each differences.

During the course of operations the Municipality has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the GWFS. Balances between the funds included in Governmental Activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the Governmental Activities column.

Further, certain activity occurs during the fiscal year involving transfers of resources between funds. In GFFS these amounts are reported at gross amounts as transfers in/out. While reported in GFFS, certain eliminations are made in the preparation of the GWFS. Transfers between the funds included in Governmental Activities are eliminated so that only the net amount is included as transfers in the Governmental Activities column.

The Municipality reports its financial position (*Balance Sheet*) and results of operations (*Statement of Revenues, Expenditures and Changes in Fund Balances*) in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions.

Notes to the Basic Financial Statements

The notes to the financial statements provide information that is essential to a user's full understanding of the data provided in the basis financial statements

Required Supplementary Information – Budgetary Comparison Schedule – General Fund

The basic financial statements are followed by a section of required supplementary information. This section includes a *Budgetary Comparison Schedule – General Fund*, which includes reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the GFFS.

Required Supplementary Information – Employees' Retirement System

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, that is effective for the Municipality's fiscal year beginning July 1, 2014, revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees, and required supplementary information that include the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting.* Revenue (including interest on deposits and investments) is generally recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Municipality gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been met, other than time requirements. These resources relate to a future period (when the advance is first permitted to be used in accordance with the government-mandated nonexchange transaction or a voluntary nonexchange transaction) and, therefore, should be classified as a deferred inflow of resources until such time as the resources are first permitted to be used. Receipts on any type of revenue sources collected in advance for use in the following fiscal year are recorded as unearned revenues.

Governmental Funds Financial Statements

The GFFS are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For these purposes, the Municipality considers revenues to be available if they are collected within sixty (60) days after the end of the current fiscal period. Revenues that the Municipality earns by incurring obligations are recognized in the same period as when the obligations are recognized. At June 30, 2015, all revenues sources met this availability criterion.

Property taxes, volume of business taxes, sales and usage taxes, construction excise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability requirements have been met, and the amount is received during the period or within the availability period for this revenue source (60 days of year-end). However, those resources not available for spending in the current period and, therefore should be classified as a deferred inflow of resources. Expenditures-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Accordingly, such resources should be reported as unearned revenue in the liability section of the general fund's *Balance Sheet.* All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims an judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Principal and interest on bonds payable are recorded when they matured (when payment is due), except for principal and interest of bonds due on July 1, 2015, which are recorded as governmental fund liabilities of June 30, 2015 which is the date when resources were available in the debt service fund. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The accompanying *Balance Sheet – Governmental Funds* generally reflects only assets that will not be converted into cash to satisfy current liabilities. Long-term assets and those assets that will not be converted into cash to satisfy current liabilities are generally not accounted for in the accompanying *Balance Sheet – Governmental Funds.*

The measurement focus of the GFFS is on decreases of 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.

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). 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. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

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 interfund 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 a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

For budgetary purposes, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. The encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as assigned fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. In addition, under the budgetary basis of accounting, revenues are recorded when cash is received.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality follows these procedures, in accordance with law, in order to establish the budgetary data reflected in the *Budgetary Comparison Schedule – General Fund*:

Original Budget

1. Prior of May 15 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 Office of 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 to be effective on July 1.

Act No. 154 of December 19, 2013 amended Sections 7.002 and 7.003 of Act. 81 of 1991, as amended, known as the "Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991" for the purpose of establishing the budget of each municipality shall not exceed income certified in the external audit report or "single audit" for the previous fiscal year in revenue from Volume of Business Taxes, Sales and Usage Taxes (SUT), and Licenses and Permits; and that in these cases, the estimated revenue mechanism cannot be used to support the operating budget of a municipality. Also, in cases where the municipality reflects a surplus in the current budget, the surplus should be used to pay off the accumulated deficit. As an exception, the municipality may establish an Emergency Fund that draws no more than thirty percent (30%) of the surplus that can only be used when there is an emergency declaration made by the Governor of the Commonwealth of Puerto Rico that apply to the municipality. In cases where the municipality has no accumulated deficit, the surplus may be used to increase the Emergency Fund of the municipality.

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.

Final Budget

The final budgetary data presented in the Budgetary Comparison Schedule – General Fund reflects the following changes to the original budget:

1. Certain annual appropriations are budgeted on a project basis. If such projects are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, and unexpended grant appropriations, are carried forward to the following year. In certain circumstances, other regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

2. Appropriations may be adjusted during the year with the approval of the Mayor and the Municipal Legislature, e.g. supplemental appropriations. Additionally, the Mayor is authorized to make certain transfer of surplus within the departments. Such adjustments are reflected in the final budgetary data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Mayor is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Municipal Legislature is the department Level.

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

1. Encumbrances are recorded as expenditures under the budgetary basis and as restricted, committed and assigned fund balances under GAAP.

2. Interfund transactions of the General Fund are not included in the budgetary basis.

3. Certain accrued liabilities and other debts are not included in the budgetary basis.

4. Certain revenues susceptible to accrual, i.e., both measurable and available, are not included in the budgetary data.

The Special Revenue Fund has not been included in the budgetary comparison because balances are not budgeted. Also the budget prepared for the Federal Financial Awards Programs included in the Capital Projects and Special Revenue Funds is based on a program period which is not necessarily the same fiscal year. Accordingly, it's not practical to present an annual comparison of budget for such programs.

Excess of Expenditures over Appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations in the following function (the legal level of budgetary control) of the General Fund: general government by $1,438,815, and Public Works by $50,595. This overspending of appropriation is authorized by law up to 5% if related to cases involving imminent public endangerment (e.g., natural disaster, or fire), which wasn't the case this year, it is considered a budgetary violation. The budgetary variance during the year present an excess of revenues of $598,163 and expenditures in excess of $1,001,462 for a total decrease in Budgetary Fund Balance of $403,299. The accumulated budgetary fund balance deficit amounted to $4,535,469.

D. Assets, Liabilities, and Net Assets

1) Cash and Investment, and Cash with Fiscal Agent

The Municipality's cash and investment are composed of demand deposits in commercial banks, demand deposits in the Governmental Development Bank of Puerto Rico (GDB), and cash equivalents in commercial banks. The Municipality has adopted the *Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995. The Finance Director of the Municipality, follow the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments, if available. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. Cash Equivalents are investments with an original maturity of 90 days or less.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with amount invested. Cash in the Special Revenue and Capital Project Funds are restricted; accordingly, resources available were not used for pool investments. During the fiscal year 2014-2015 any investment was realized by the Municipality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Cash with Fiscal Agent in the Debt Service Fund represents special additional property tax collections retained by the GDB, deposit in the GDB and restricted for the payment of the Municipality's debt service, as established by law. Cash with Fiscal Agent in other governmental funds consists of undisbursed proceeds of certain bonds and notes issued for the acquisition and construction of major capital improvements, or grants which are maintained in a cash custodian account by the GDB. This sinking fund is maintained by the GDB, agency which acts as the insurer and payer of the Municipality's bonds and notes issued in accordance with law.

2) *Receivables and Payables*

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

Advance between funds, as reported in the fund financial statements, if any, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables consist of all revenues earned but not collected at June 30, 2015. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Intergovernmental receivables in the general fund represent mostly sales and usage taxes, federal grant and contributions, property tax accounts that are levied by Municipal Revenue Collection Center (MRCC), a governmental entity created by the Government. Intergovernmental receivables in the other governmental funds represent amounts owed to the Municipality for reimbursement of expenditures incurred pursuant to federally funded grant and contributions and state appropriations, and the amount in the debt service fund represents the distribution of property tax collected which is restricted for the debt service.

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

3) *Inventories*

The Municipality used the purchase method to account for the purchases office and printing supplies, gasoline, oil and other expendable supplies held for consumption. This method records items as expenditures, in the appropriate fund, when they are acquired and, accordingly, the inventory is not recorded in the basic financial statements.

4) *Capital Assets*

Capital assets, which include land, buildings and improvement, machinery and equipment, motor vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the GWFS. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than $500 (amount not rounded) and an estimated useful life in excess of two years. 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. The Municipality reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by Governmental Activities) the government chose to include all such items regardless of their acquisition date or amount.

The Municipality was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the GFFS to the extent the Municipality capitalization threshold is met. Depreciation and amortization expense is recorded only in the GWFS. Depreciable capital assets are generally depreciated or amortized over their estimated useful lives under the straight-line method, except for equipment held under capital leases which is depreciated over the shorter of its estimated useful life or the lease term. No depreciation is recorded for land and construction in progress. The estimated useful lives of major capital asset categories are:

CAPITAL ASSETS	YEARS
Buildings and Site Improvements	40
Infraestructure	40
Motor Vehicles, Furniture and Fixtures	5
Machinery and Equipments	3-5

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 function/programs but reported as direct expense of the public works and urban development functions.

Impaired capital assets that will no longer be used by the Municipality, if any, are reported at the lower of carrying value or fair value. Impairment losses on capital assets with physical damages that will continue to be used by the Municipality are measured using the restoration cost approach. Impairments of capital assets that are subject to a change in the manner or duration of use, or assets affected by enactment or approval of laws or regulations or other changes in environmental factors or assets that are subject to technological changes or obsolescence, if any, are measured using the service units approach.

The Municipality is prevented legally from entering into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

In the accompanying GFFS, the lease payments are recorded as expenditures in the governmental fund.

5) Unearned Revenues

In the GWFS, unearned revenues arise only when the Municipality receives resources before it has a legal claim to them. In the GFFS, arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

6) Deferred Outflows/Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are defined in GASB Concept Statement No. 4, *Elements of Financial Statements*, as the acquisitions and consumptions of net assets by the government that is applicable to future periods. Pursuant to GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities,"* the Municipality recognizes deferred outflows and inflows of resources.

In addition to assets, the *Statement of Financial Position* will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Municipality has no items that qualify for reporting in this category.

In addition to liabilities, the *Statement of Net Position* will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Municipality has no items that qualify for reporting in this category.

Based on this concept, the **Municipality** reports the following as deferred outflows of resources and deferred inflows of resources.

- The deferred outflows of resources or deferred inflows of resources resulting from the implementation of GASB No. 68. Note 16 presents additional information about the composition of these items.
- Various types of revenues earned but not available within 60 days of fiscal year end.

Note 7 provides details on deferred outflows of resources and deferred inflows of resources.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds *Balance Sheet.* The governmental funds report *unavailable revenues* from two sources: Christmas Bonus Reimbursement from the Commonwealth and Federal Grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7) Long-Term Obligations, Bonds Issuance Costs, and Premium or Discount

The liabilities reported in the GWFS include the general and special obligation bonds, long-term notes, other noncurrent liabilities (e.g., vacation, sick leave, claims and judgments, noncurrent liabilities to other governmental entities and third parties, and landfill post closure care costs). Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, if any. As per GASB Statement No. 65, Bond Issuance Costs incurred are reported as expense in the fiscal year incurred.

In the GFFS, governmental fund types recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Expenditures for principal and interest payments for governmental fund general and special obligations bonds are recognized in the Debt Service Fund when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

8) 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 at the current rate. 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; and (4) the amount can be reasonably estimated.

In accordance with the above criteria and requirements in conformance with GASB Accounting Standards Codification Section C60, *Compensated Absences,* the Municipality has accrued a liability for compensated absences, which has been earned but not taken by Municipality's employees, including its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay using salary rates effective at June 30, 2015. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, 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. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

9) 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 when the liability is incurred. The Long-Term Liabilities includes, when appropriate, 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.

10) Accounting for Pension Costs

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

In addition, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* effective for the Municipality's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Municipality to its employees. This Statement requires recognition of a liability equal to the Net Pension Liability, which is measured as the Total Pension Liability, less the amount of the pension plan's Fiduciary Net Position. The Total Pension Liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

This Statement requires that most changes in the Net Pension Liability be included in pension expense in the period of the change. To the extent practical, the financial statements presented for the periods affected should be restated. Also, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment to GASB 68, is required to be implemented simultaneously with the provisions of GASB 68.

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

Measurement Frequency and Valuation Requirements

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

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

Impact on the Financial Statements – Change in Accounting Principles

Changes resulting from GASB 68 requirements apply only to the government-wide financial statements. GASB 68 does not apply to governmental funds; they will continue to report pension expenditures based on contributions made during the year. There is no change in cash flow, contribution rates or General Fund budgeted expenditures associated with implementation of GASB 68. In addition, the new measure used to recognize pension expense and pension liability eliminated the ARC concept for recognizing pension expense, resulting in the separation of accounting from funding.

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

- The *Net Position* (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) at June 30, 2014 for all reporting entities would have been $7,971,948, a $16,483,085 decrease (67.4%) from the previously reported net position of $24,455,033 (pre-GASB 68 implementation).

- *Total Long-Term Liabilities* would have been $57,143,450 as of June 30, 2014, an increase of $17,104,046 or 42.7% compared to the previously reported $40,039,404 long-term liabilities (pre-GASB 68 implementation).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- Under GASB No. 68, *Pension Expense* would have been $357,432, a decrease of $263,529 or 42.4% compared to the annual pension cost of $620,961 under GASB No. 27 reported at June 30, 2014. Under GASB No. 68, the pension expense is measured as the difference between the net pension liabilities between two reporting periods.

- The *Deferred Inflows of Resources* was not available for the implementation of GASB Nos. 68 and 71. The budgeted pension contribution for fiscal 2014-2015 of $1,426,857 was recognized as *Deferred Outflows of Resources* and $143,919 was recognized as *Deferred Inflows of Resources.*

	Current Accounting Standards (GASB 27)	New Accounting Standards (GASB 68 & 71)	Impact of New Standards
Assets	$ 64,494,437	$ 64,494,437	No change
Deferred Outflow of Resources	-	620,961	An increase in estimated pension contribution in Fiscal Year 2014-2015
Liabilities	40,039,404	57,143,450	An increase of $17,104,046 (Net Pension Liability)
Deferred Inflow of Resources	-	-	No change
Net Position	24,455,033	7,971,948	A net decrease of ($16,483,085) to Net Position
Expenses	620,961	357,432	A decrease of $263,529 ($978,383 - $620,961, contribution minus the pension expense)
Adjustments to Restated Beginning Net Position	(16,483,085)	-	A decrease of $16,483,085 to beginning Net Position

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

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be $16,483,085 for governmental activities.

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

- contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable;

- pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms;

- pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

For the purpose of applying the requirements of GASBS No, 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing Defined Benefit Pension Plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 16).

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

11) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements.

The GWFS utilize a net position presentation, which are categorized as follow:

- *Net Invested in Capital Assets* – These consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of bonds payable, notes payable and other debts that are attributed to the acquisition, construction or improvements 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 improvements of capital assets has been reduced by any related unspent debt proceeds and any related unamortized debt issuance costs. In addition, the outstanding debt attributed to capital assets does not include accrued interest payable, non-capital accrued liabilities, inter-fund loans and other financial assets.

  Net investment in capital assets is comprised of the following:

Capital Assets, Net of Accumulated Depreciation........................	$56,765,979
Outstanding Balance on Related Debt	(29,796,000)
Unspent Capital Debt Proceeds..	6,412,519
Net Investment in Capital Assets	$33,382,498

- *Restricted Net Position* – These result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of net assets which do not meet the definition of the two preceding categories. 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 on resources that are imposed by management, but can be removed or modified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Net Position Flow Assumption

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

B) Fund Balance

Fund Balance Classification

Fund balances for the governmental funds are reported in classifications that comprise a hierarchy based on the extent to which the Municipality honors constraints on the specific purposes for which amounts in those funds can be spent.

- *Nonspendable* – amounts that cannot be spend because they are either (1) not spendable in form; or (2) legally or contractually required to be maintained intact.
- *Restricted* – amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – amounts that can only be used for specific purposes determined by formal action of the Municipality's highest level of decision-making authority (Municipal Legislature) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned – amounts that are constrained by the Municipality's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.
- Unassigned – the residual classification for the Municipality's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Fund Balance Flow Assumption

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

Fund Balance Policy

The Municipality believes that sound financial management principles require that sufficient funds be retained by the Municipality to provide a stable financial base at all times. To retain this stable financial base, the Municipality needs to maintain a General Fund balance sufficient to fund all cash flows of the Municipality, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, to provide funds for the disparity in timing between the collection of property taxes and other main income. The purpose of this policy is to specify the size and composition of the Municipality's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

Restrictions of Fund Balance

Restrictions of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriable for expenditure. The Municipality has implemented the provisions of the GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010, in which it is required to classify and report amounts in the appropriate fund balance classification by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Policy on Committing Funds

It is the policy of the Municipality that fund balance amounts will be reported as "Committed Fund Balance" only after formal action and approval by Municipal Legislature. The Municipal Legislature has the authority to separate funds for specific purposes. Any separate fund as Committed Fund Balance requires the adoption of a resolution by a simple majority of votes. The adoption of the resolution should be carried out before June 30 of the fiscal year to implement. If the actual amount of the commitment is not available through June 30, the resolution should establish the process or formula required to calculate the exact amount as soon as information is available in the following fiscal year.

For example, the Municipal Legislature may approve a motion prior to year-end financial statements, if available, up to a specified dollar amount as Committed Fund Balance for capital projects. The exact dollar amount to be reported as Committed Fund Balance for capital projects may not be known at the time of approval due to the annual financial audit not yet being completed. This amount can be determined at a later date when known and appropriately reported within the year-end financial statements due to the Municipal Legislature approving this action before year-end.

It is the policy of the Municipality that the Municipal Legislature may commit fund balance for any reason that is consistent with the definition of Committed Fund Balance contained within GASBS 54. Examples of reasons to commit fund balance would be to display intentions to use portions of fund balance for future capital projects, stabilization funds, or to earmark special General Fund revenue streams unspent at year-end that are intended to be used for specific purposes.

After approval by the Municipal Legislature, the amount reported as Committed Fund Balance cannot be reversed without utilizing the same process required to commit the funds. Therefore, it is the policy of the Municipality that funds can only be removed from the Committed Fund Balance category after resolution and approval by the Municipal Legislature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Policy on Assigning Funds

Funds that are *intended* to be used for a specific purpose but have not received the formal approval action at the Municipal Legislature level may be recorded as Assigned Fund Balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the Municipal Legislature. Having reviewed the requirements for assigning fund balance, therefore, is the policy of the Municipality that Mayor shall have the authority to assign fund balance of the Municipality based on the intentions of the use of funds by the Municipal Legislature. In addition, the Mayor can delegate to the Finance Director or other employee of the Municipality, the authority to assign the funds.

Policy on Unassigned General Fund Balance

It is the goal of the Municipality to achieve and maintain an Unassigned General Fund Balance equal to 15% of budgeted expenditures. The Municipality considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 20% as excessive. An amount in excess of 20% is to be considered for reservation to accumulate funding for the purchase of machinery and equipment, for capital projects, and/or reduces tax levy requirements, and shall be determined in conjunction with the annual budget process. In the event that the Unassigned General Fund Balance is less than the policy anticipates, the Municipality shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Appropriation from unassigned General Fund balance shall require the approval of the Municipal Legislature and shall be only for specific disbursements, such as one-time expenditures and capital asset purchases, and not for ongoing expenditures unless a viable plan designated to sustain the expenditures is simultaneously adopted. The Municipality hasn't met its GASB 54 fund balance targets at June 30, 2015.

Prioritization of Fund Balance Use

In circumstances where the payment is for a purpose that quantities are available in multiple classifications of funds balance, the order in which resources will be used shall be as follows: Restricted Fund Balance, followed by Committed Fund Balance, Assigned Fund Balance, and last but not least, Unassigned Fund Balance.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) *Components of Fund Balance*

	GENERAL FUND	ACTIVITIES CENTER FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonspendable	$ -	$ -	$ -	$ -	$ -
Restricted For:					
Improvement of Streets and Sidewalks	-	-	-	1,197,943	1,197,943
Improvement and Construction of Facilities	-	345,046	-	2,209,490	2,554,536
Capital Outlay	-	-	-	1,342,496	1,342,496
Welfare	-	-	-	440,881	440,881
Public Safety	-	-	-	447,214	447,214
Improvement of Water and Sewer System	-	-	-	70,797	70,797
Sanitation	-	-	-	97,879	97,879
School Maintenance	-	-	-	154,957	154,957
Public Instruction	-	-	-	36,378	36,378
Culture and Recreation	-	-	-	3,385	3,385
Debt Repayment	-	-	1,376,277	-	1,376,277
Total Restricted	-	**345,046**	**1,376,277**	**6,001,420**	**7,722,743**
Commited					
General Government	-	-	-	17,938	17,938
Assigned					
Public Instruction	-	-	-	12,852	12,852
Welfare	-	-	-	5,788	5,788
Total Assigned	-	-	-	**18,640**	**18,640**
Unassigned:	**(1,422,149)**	-	-	**(4,312,428)**	**(5,734,577)**
Total Fund Balances	**$ (1,422,149)**	**$ 345,046**	**$ 1,376,277**	**$ 1,725,570**	**$ 2,024,744**

E. Interfund Transactions

Interfund 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 interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

Interfund Transfers – Legally required transfers that are reported when incurred as transfers-in by the recipient fund and as transfers-out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Intra-Entity Transactions – There are two types of intra-entity transactions: First, the flow of resources between the primary government and its component units, and among the component units. This flow of resources and the related outstanding balances are reported as if they were external transactions. However, flow of resources between the primary government and blended component units are classified as interfund activity, as described above. Second, the intra-entity balances between the primary government and discretely presented component units that are tantamount to long-term debt financing. The primary government's liability is reported in the *Statement of Net Position*, the proceeds in the primary government's funds, and the asset in the discretely presented component units' *Statement of Net Position*. For the fiscal year there are not intra-entity transactions.

F. Risk Financing

Under Act No. 63 of June 21, 2010, the Legislative Assembly of the Commonwealth of Puerto Rico, authorized the municipalities to procure and manage at their own discretion all insurance policies, including those related to health plans been provided to the municipal employees. The Municipality also obtains medical insurance coverage from one health insurance company for its employees. Different health coverage and premium options are negotiated each year by the Municipality. Premiums are paid on a monthly basis directly to the insurance company.

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2015 amounted to $428,250, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

The Municipality carries insurance coverage for death and bodily injuries caused by the motor vehicles accidents. The insurance is obtained through the Automobile Accidents Compensation Administration (AACA), a component unit of the Commonwealth of Puerto Rico. This insurance is compulsory for all licensed vehicles used on public roads and highways in Puerto Rico. The annual premium is $35 per licensed motor vehicle, which is paid directly to AACA.

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2015 amounted to $217,144.

The Municipality obtains unemployment compensation, non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Department of Labor and Human Resources of the Commonwealth of Puerto Rico (DOLHR). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because work or employment-related accidents or non-occupational disability and drivers' insurance premiums are paid to DOLHR on a cost reimbursement basis.

G. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

H. Reclassifications

Various reclassifications have been made in the accompanying basic financial statements which affect the comparability with the basic financial statements issued for previous fiscal years.

I. Future Adoption of Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following pronouncements that have effective dates after June 30, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement address accounting and financial reporting issues related to *fair value* measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides 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.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

have a readily determinable fair value by using the net asset value per share (or its equivalent) or the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

<u>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 No. 67 and 68*</u>. 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. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer 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 No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

This Statement is effective for fiscal years beginning after June 15, 2016 *(FY 2016-2017)*. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017 *(FY 2017-2018)*. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. 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 "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 *(FY 2015-2016)*, and should be applied retroactively. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires 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.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients

- The gross dollar amount of taxes abated during the period

- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements

- The specific taxes being abated

- The gross dollar amount of taxes abated during the period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continuation

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

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 participants. 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 purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015 (FY 2016-2017). Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement establishes an additional presentation of component units. This Statement applies to all state and local governments. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. This Statement does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement amends Statement No. 14, *The Financial Reporting Entity*, paragraph 53, and *Implementation Guide No. 2015-1*, Question 4.30.1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

A component unit should be included in the reporting entity financial statements using the blending method if the component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provision is paragraphs 21-37 of Statement 14, as amended.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015 *(FY 2015-2016)*. Earlier application is encouraged.

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

3. CASH AND INVESTMENTS

Cash in Banks

Municipality's cash and investments at June 30, 2015 are composed of: (1) demand deposits in commercial banks, (2) demand deposits in the Government Development Bank of Puerto Rico (GDB, fiscal agent), and (3) cash equivalents in commercial banks. Cash equivalents of $7.3 million are deposits in commercial bank accounts and interest bearing accounts in GDB, and are recorded at cost, which approximates fair value.

Puerto Rico laws authorize governmental entities to invest in direct obligations or obligations guaranteed by the federal government or the Commonwealth of Puerto Rico (*Statement of Uniform Investment Guidelines for the Municipalities of the Commonwealth of Puerto Rico*, issued by the GDB as promulgated by Act No. 113 of August 3, 1995). The Municipality is also allowed to invest in bank acceptances, other bank obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts, and certificates of deposit.

The Municipality follows the practice of pooling cash. At June 30, 2015, the cash are maintained in commercial banks with a balance of $2,090,121 of which $315,917 in the General Fund, $345,046 in the Water Park Fund, and $1,429,158 in Other Governmental Funds. The balance in cash account is available to meet current operating requirements and any unrestricted excess, if any, is generally invested in certificates of deposit with commercial banks. Any deficiency in the cash account is assumed by the general fund and covered through future budgetary appropriation.

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

Cash with fiscal agent in the debt service fund consists principally of property tax collections amounting to $3,851,660 that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent of $2,126 in the General Fund, $3,486,006 in the Debt Service Fund, and $1,732,098 in other governmental funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets and operational purposes. The amounts deposit in GDB is maintained in interest bearing accounts and is not collateralized.

Municipality follows the provisions of GASB Accounting Standards Codification Section C20, *Cash Deposit with Financial Institutions*, related with cash deposit and interest-earning investment contract with financial institutions.

3. CASH AND INVESTMENTS - continuation

Accordingly, the following is essential information about credit risk, interest rate risk, custodial credit risk, and foreign exchange exposure of deposits and investments of the Municipality at June 30, 2015:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash in banks of $2.1 million which are insured by the FDIC, generally up to a maximum of $250,000. As previously mentioned, public funds deposited by the Municipality in commercial banks must be fully collateralized for the amounts deposited in excess of the FDIC coverage. No investments in debt of equity securities were made during the Fiscal Year ended June 30, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

Custodial Credit Risk

This is the risk that, in the event of the failure of a depository financial institution, the Municipality will not be able to recover its cash and investments or will not be able to recover collateral securities that are in the possession of an outside party. Pursuant to the Investment Guidelines for the Government adopted by GDB, the Municipality may invest in obligations of the Government, obligations of the United States, certificates of deposit, commercial paper, banker's acceptance, or in pools of obligations of the municipalities of Puerto Rico, which are managed by GDB. At June 30, 2015, the Municipality has balances deposited in commercial banks amounting to $2.1 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $5,220,230 are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. During the past years, the GDB's liquidity and financial condition was adversely affected by, among other factors, a significant increase in credit spread for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital market access, and significant reduction of liquidity in the local Puerto Rico capital market. Accordingly, the GDB's credit rating was downgraded and maintained in "Credit Watch" with negative implications. These factors have resulted in significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges, and/or bond issuances. 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 in commercial banks, but for GDB it's considered high.

Interest Rate Risk

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

Foreign Exchange Risk

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

4. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2015 corresponds to $46,688 from Puerto Rico Treasury Department for the Christmas Bonus reported in the General Fund, and $224,155 from special laws and others reported in the Other Governmental Funds.

5. ACCOUNTS RECEIVABLE – FEDERAL GRANTS

The due from federal grants of the Other Governmental Funds for the fiscal year ended June 30, 2015 corresponds to $339,562 from the Community Development Block Grant/States Program (SBGP) (through the Office of the Commissioner of Municipal Affairs), $112,543 from the Child and Adult Care Food Program (through the Puerto Rico Department of Education).

6. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds *Balance Sheet* report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period as follows:

Governmental Funds:	
Volume of Business Taxes	$ 2,973,977
Total Unearned Revenues	$ 2,973,977

7. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Municipality has one item that are reportable on the Government-wide Statement of Net Position that is relates to outflows from changes in the net pension liability (Note 16).

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds *Balance Sheet* report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflows of resources* reported in the basic financial statements were as follows:

Governmental Activities:	
Deferred Outflows of Resources	
Contributions to ERS	$ 1,426,857
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 143,919

Governmental Funds:		
Christmas Bonus - Commonwealth	$	46,688
Federal Grants:		
SBGP		326,994
Total Deferred Inflows of Resources	$	373,682

8. INTERFUND RECEIVABLE, PAYABLES AND TRANSFERS

A. Interfund Receivable and Payable Balances

Due to/from Other Funds at June 30, 2015 are summarized as follows:

INTERFUND RECEIVABLE	INTERFUND PAYABLE	AMOUNT
General Fund	Other Fund	1,455,984
Total		$ 1,455,984

B. Interfund Transfers

Transfers are indicative of funding for capital projects or debt service, and subsidies of various operations.

INTERFUND TRANSFERS WITHIN THE GOVERNMENTAL FUNDS			
SOURCES	TRANSFER TO	AMOUNT	PURPOSE
General Fund	Debt Service Fund	$ 309,534	Equity Transfer
Debt Service Fund	General Fund	209,421	Debt Payments
Debt Service Fund	Water Park	594,518	Debt Payments
Water Park	Other Governmental Funds	209,316	Debt Payments
Other Governmental Funds	General Fund	47,957	Matching Requirements
	Total	$ 1,370,746	

7. DUE TO OTHER GOVERNMENTAL UNITS

As of June 30, 2015, balance due to other governmental units of the General Fund for services rendered to the Municipality ($156,040) consists of Water and Sewer Authority ($65,752), and Employees' Retirement System of the Government of the Commonwealth of Puerto Rico ($90,288).

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8. CAPITAL ASSETS

Capital Assets activities for the fiscal year ended June 30, 2015 was as follows:

DESCRIPTION	BALANCE JULY 1, 2014	INCREASE	DECREASE	BALANCE JUNE 30, 2015
Non-Depreciable Capital Assets:				
Land	$ 17,088,075	$ 277,135	$ -	$ 17,365,210
Construction in Progress	10,750,539	2,088,822	-	12,839,361
Total Non-Depreciable Capital Assets	27,838,614	2,365,957	-	30,204,571
Depreciable Capital Assets:				
Buildings and Buildings Improvements	22,792,732	397,300	-	23,190,032
Machinery and Equipment	2,806,813	247,781	-	3,054,594
Motor Vehicles	6,654,184	73,450	-	6,727,634
Infrastructure	10,856,981	24,900	-	10,881,881
Total Depreciable Capital Assets	43,110,710	743,431	-	43,854,141
Less Accumulated Depreciation:				
Buildings and Buildings Improvements	(6,906,523)	(578,193)	-	(7,484,716)
Machinery and Equipment	(2,398,356)	(267,302)	-	(2,665,658)
Motor Vehicles	(3,980,362)	(736,156)	-	(4,716,518)
Infrastructure	(2,108,297)	(317,544)	-	(2,425,841)
Total Accumulated Depreciation	(15,393,538)	(1,899,195)	-	(17,292,733)
Total Depreciable Capital Assets (Net)	27,717,172	(1,155,764)	-	26,561,408
CAPITAL ASSETS, NET	$ 55,555,786	$ 1,210,193	$ -	$ 56,765,979

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

	AMOUNT
General Government	$ 683,711
Public Safety	227,903
Publc Works and Transportation	474,795
Culture and Recreation	151,936
Human Services	246,895
Urban Development	113,955
Total Depreciation Expenses	$ 1,899,195

9. NONCURRENT LIABILITIES

A. General Obligations Bonds and Special Obligations Bonds

The principal long-term obligations of the Municipality are general obligation bonds and special obligation bonds issued to finance the construction and improvements of public facilities and purchase of machinery and equipment. The Municipality's obligations long-term debt retirements are appropriated and paid from resources accumulated in the Debt Service Fund (See Note 10).

The following is a summary of general and special obligation bonds of the **Municipality** as of June 30, 2015:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1996	$ 575,000	2015	4.87% to 6.29%	$ 60,000
General Construction	1997	1,525,000	2021	4.87% to 6.56%	745,000
General Construction	2003	4,025,000	2027	4.36% to 5.02%	2,830,000
General Construction	2004	1,500,000	2030	4.17% to 5.02%	1,205,000
General Construction	2005	2,015,000	2030	3.27% to 4.80%	840,000
General Construction	2009	2,795,000	2033	1.53% to 6.00%	2,500,000
General Construction	2009	2,150,000	2033	1.53% to 6.00%	1,925,000
Operational Purpose	2009	1,486,000	2019	4.75% to 6.00%	726,000
General Construction	2010	2,235,000	2034	5.00% to 6.50%	2,045,000
Purchase of Equipment	2011	2,295,000	2017	6.00% to 7.50%	1,130,000
General Construction	2012	135,000	2036	6.00% to 7.50%	120,000
Purchase of Property	2012	435,000	2036	6.00% to 6.50%	415,000
Operational Purpose	2012	1,940,000	2036	6.00% to 6.50%	1,835,000
Operational Purpose	2013	1,820,000	2037	6.00% to 6.50%	1,750,000
Purchase of Truck	2014	225,000	2020	6.00% to 6.50%	200,000
Total General Obligations Bonds					18,326,000
Special Obligation Bonds:					
General Revenues:					
Operational Purpose	2004	1,915,000	2024	1.53% to 7.00%	1,095,000
Section 108 (HUD):					
General Construction	2006	6,000,000	2026	4.96% to 5.77%	4,588,000

continue

9. NONCURRENT LIABILITIES – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales and Use Taxes:					
General Construction	2008	1,175,000	2032	1.53% to 6.00%	1,060,000
Purchase of Equipment	2011	172,000	2017	6.00% to 6.50%	87,000
General Construction	2011	474,000	2017	6.00% to 6.50%	234,000
General Construction	2011	3,015,000	2035	6.00% to 7.00%	2,825,000
Purchase of Equipment	2012	271,000	2018	6.00% to 7.00%	171,000
General Construction	2012	410,000	2018	6.00% to 7.50%	260,000
Operational Purpose	2013	1,195,000	2037	6.00% to 7.50%	1,150,000
Subtotal					5,787,000
Total Special Obligations Bonds					11,470,000
Total General and Special Obligation Bonds					$ 29,796,000

Variable interest rates on bonds are reviewed periodically by GDB and are based on the fluctuation of GDB's weighted average rate for its commercial paper program. Under this program, GDB issues commercial paper: (1) in the taxable and tax-exempt markets of the USA, and (2) to corporations having tax exemptions under the Puerto Rico Industrial Incentives Acts and, which qualify for benefits provided by the former Section 936 of the US Internal Revenue Code.

Arbitrage Rebate Requirement

According to Sections 103 and 148 through 150 of the US Internal Revenue Code and Sections 1.148 through 1.150 of the US Treasury Regulation, the Municipality's tax-exempt bonds are subject to the arbitrage rebate requirements. At June 30, 2015, the Municipality had no federal arbitrage liability on bonds since interest income earned from the investment of unspent bond proceeds were made in bank deposits that generate yields lower than the rates applicable to the debt service payments.

B. Legal Debt Limit and Legal Debt Margin

On March 9, 2009, the Commonwealth of Puerto Rico approves Law Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The Municipality debt limits are 10% of valuation of property subject to taxation, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

C. Net Pension Liability

The **Municipality** implemented of the GASB No. 68 that represent a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position with a the recognition of a net pension liability. The total prior period adjustment on the government-wide basis is estimated to be $16,483,085 for governmental activities. As of June 30, 2015 the amount of net pension liability amounted to $17,984,401 for the proportional share in the cost-sharing multi-employers pension plan (see Note 16).

9. NONCURRENT LIABILITIES – continuation

D. Other Long-Term Debts

Following are the other noncurrent liabilities as of June 30, 2015 and corresponding change during the fiscal year:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
Law Number 42 - MRCC	$ 534,460	$ -	$ (16,087)	$ 518,373	$ 17,098	$ 501,275
Law Number 146 - MRCC	223,518	-	(12,416)	211,102	12,416	198,686
Christmas Bonus	203,800	93,377	(203,800)	93,377	93,377	
Consolidated Waste Services, Corp	1,962,500	-	(120,000)	1,842,500	120,000	1,722,500
Compensated Absences	1,685,413	393,137	(238,700)	1,839,850	1,486,142	353,708
TOTAL	$ 4,609,691	$ 486,514	$ (591,003)	$ 4,505,202	$ 1,729,033	$ 2,776,169

Borrowing from MRCC

On July 1, 2002, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 42. The total amount of debt is $663,454 to be paid during 30 years plus annual interest of 6.1875%.

On July 1, 2007, the Municipality entered into a repayment agreement with the GDB and MRCC to repay the uncollectible property tax sale authorized by the enacted Law Number 146. The total amount of debt is $310,442 to be paid during 25 years plus annual interest of 6.22%.

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2015 and payroll related benefits, representing the benefit to employees to be paid during the first week of December 2015.

Consolidated Waste Services, Corp.

On August 29, 2014, the Municipality entered into a repayment agreement with Consolidated Waste Services, Corp. to pay the total amount of debt related to solid waste disposal as per mutual transaction. The total amount of debt is $1,962,500 to be paid during 30 months by monthly payment of $10,000. The agreement provide for special discount if paid in full before 12 months ($262,500) or before 30 months ($131,250).

Compensated Absences

This amount represents the estimated accrued vacation benefits, accrued sick leave benefits and payroll related benefits, representing the Municipality's commitment to fund such costs from future operations.

Following are the Other Long-Term Debts:

9. NONCURRENT LIABILITIES – continuation

E. Changes in General Long-Term Debts

The following is a summary of changes in long-term debts for the year ended June 30, 2015:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENT	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER NEXT YEAR
General Obligation Bonds	$ 19,511,000		$ (1,185,000)	$ 18,326,000	$ 1,275,000	$ 17,051,000
Special Obligation Bonds	12,203,000		(733,000)	11,470,000	1,116,000	10,354,000
Net Pension Liability	17,104,046	1,693,356	(813,001)	17,984,401	-	17,984,401
Other Obligations	4,609,691	486,514	(591,003)	4,505,202	1,729,033	2,776,169
TOTAL	**$ 53,427,737**	**$ 2,179,870**	**$ (3,322,004)**	**$ 52,285,603**	**$ 4,120,033**	**$ 48,165,570**

F. Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The Municipality believes it is in compliance with all significant limitations and restrictions.

The annual requirements to amortize the general long-term debts outstanding as of June 30, 2015 are as follows:

	General Obligation Bonds		Special Obligation Bonds		Other Noncurrent Obligations		TOTAL	
YEAR ENDING JUNE 30,	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL PAYMENT	INTEREST PAYMENT	PRINCIPAL	INTEREST
2016	$ 1,275,000	$ 986,906	$ 1,116,000	$ 626,133	$ 1,729,033	$ 37,100	$ 4,120,033	$ 1,650,139
2017	1,300,000	951,616	788,000	592,108	2,106,797	35,713	4,194,797	1,579,437
2018	1,385,000	871,516	819,000	549,999	31,730	34,262	2,235,730	1,455,777
2019	1,061,000	806,409	729,000	508,519	32,943	32,737	1,822,943	1,347,665
2020	905,000	758,055	623,000	469,807	34,234	31,136	1,562,234	1,258,998
2021-2025	3,800,000	3,139,594	3,230,000	1,796,715	193,539	128,650	7,223,539	5,064,959
2026-2031	4,175,000	1,965,355	2,015,000	967,171	240,364	74,047	6,430,364	3,006,573
2032-2036	3,665,000	774,523	1,645,000	521,875	136,562	11,510	5,446,562	1,307,908
2037-2041	760,000	60,653	505,000	32,300	-	-	1,265,000	92,953
Undetermined	-	-	-	-	17,984,401	-	17,984,401	-
TOTAL	**$ 18,326,000**	**$ 10,314,627**	**$ 11,470,000**	**$ 6,064,627**	**$ 22,489,603**	**$ 385,155**	**$ 52,285,603**	**$ 16,764,409**

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10. DEBT RETIREMENT

Revenues of the debt service fund consists of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC of the Commonwealth of Puerto Rico to the Municipality (See Note 11).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 9). Payments are made to the GDB from such accumulated funds by the MRCC.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

11. PROPERTY TAXES

The Municipality is authorized by Act No. 81 to impose and collect property taxes from any natural or legal person that, at January 1st of each calendar year: (1) is engaged in trade or business and is the owner of personal or real property used in trade or business, or (2) owns residential real property with a value in excess of $15,000 (at 1957 market price). The MRCC is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding tax contribution. Real property taxes are assessed by the MRCC as January 1st of each year.

The personal property tax is self-assessed by the taxpayer on a return, which is to be filed and paid in full by May 15 of each year with the MRCC and based on current values as of December 31 of previous year. Real property tax is assessed by the MRCC on each piece of real estate and on each building or residence. The property tax contribution is levied each year over the appraised value of the real property at the beginning of the calendar year. The real property assessment is based on the current value existing in the year 1957.

11. PROPERTY TAXES - continuation

The MRCC is responsible for the billing of real property taxes and collections of both, personal and real property taxes on behalf of all the municipalities of Puerto Rico. Prior to the beginning of each fiscal year, the MRCC informs the Municipality of the estimated amount of property taxes expected to be collected for the ensuing fiscal year. Throughout the year, the MRCC advances funds to the Municipality based on the initial estimated collections. The MRCC 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 three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the MRCC remits to the Municipality property taxes advances, which are less than the tax actually collected, a receivable from the MRCC is recorded at June 30. However, if advances exceed the amount actually collected, a borrowing from MRCC is recorded at June 30. The difference between the advances and the final settlement from MRCC for the fiscal year 2015 resulted in a receivable of $35,854 for the Debt Service Fund. At the time of the preparation of the financial statement, the difference between the advances and the final settlement to the General Fund is pending of final determination.

The tax rate for fiscal year 2015 is 10.43% for real property and 8.43% for personal property of which 1.03% of both are for the redemption of public debt issued by the Commonwealth of Puerto Rico and 9.40% and 7.40%, respectively, belongs to the Municipality. The Commonwealth of Puerto Rico also contributes an annual tax rate of 0.20% of the property tax collected. Taxpayers pay 10.23% for real property and 8.23% for personal property and the remaining 0.20% is paid by the Commonwealth's Secretary of the Treasury as a subsidy. As part of Act No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The remaining percentage is distributed as follows: (a) 6.00% and 4.00%, respectively, represents the Municipality's basic tax rate that is appropriated for general purposes and therefore accounted for through the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico electronic lottery and a subsidy from the Commonwealth of Puerto Rico. The remaining portion belonging to the Municipality of 3.20% represents the ad-valorem property taxes withheld by the MRCC and restricted for debt service, which is accounted for through the debt service fund (See Note 10). The Municipality has reached the maximum statutory tax rate limit for the basic tax while there is no limitation for the ad-valorem tax rate.

As previously mentioned, on March 9, 2009, the Commonwealth of Puerto Rico approves Act Number 7 that provides for revision of the valuation of property subject to taxation and imposes special property taxes for the Commonwealth. The effect of this Law was an increase in the valuation of the real properties and in the exemption granted for the residential units occupied by their owners by multiply both amount by ten. Accordingly, the residential units occupied by their owners are exempt from real property taxes on the first $150,000 assessed value. For such exempted amounts, the Puerto Rico Secretary of the Treasury assumes payment of the basic tax to the Municipality (6.00%), except for residential units assessed at less than $35,000 on which a complete exemption is granted. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by the Puerto Rico Secretary of the Treasury to the Municipality was frozen as of January 1, 1992. The Municipal Revenue Collection Center, instead of the property taxpayer, becomes the source of payment in these cases.

In addition, the law grants a complete exemption from personal property taxes up to an assessment value of $50,000 to retailers with an annual net sales volume of less than $150,000. The MRCC advances to the Municipality, on monthly payments, 100% of the contribution assessed over property for each fiscal year. In accordance to Law, these advances will be contributions by the MRCC from taxpayers. The MRCC periodically informs to the Municipality the amounts collected from taxpayers and applied to outstanding advances.

The Municipality records as revenue in the general fund the property tax contribution when received from monthly advances from MRCC. Due to the fact that collections of property tax are applied to the advances of property tax paid by the MRCC, the amortization of the advance at end of year was not available due to that is in process of verification by external auditors.

The fiscal impact for the future years has not been determined by the Municipality's management.

12. VOLUME OF BUSINESS TAXES - continuation

The volume of business taxes is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are not totally or partially exempt from this tax under the Industrial Incentives Acts of the Commonwealth of Puerto Rico. This is a self-assessed tax based on the business volume in gross sales as shown in the tax return that is due five working days after April 15 of each year. Entities with sales volume of $3 million or more must include audited financial statements together with the tax return. During the fiscal year ended June 30, 2015, the tax rates were as follows:

a. Financial institutions and savings and loan associations – 1.50%

b. Other organizations – 0.50%

Taxes are payable in two equal semi-annual installments on July 1 and January 1 following the date of levy. If they are paid with declaration on or before the due date, the taxpayer is granted a 5% of discount. The volume of business tax receivable represents filed tax returns that were uncollected as of June 30, 2015. Collections of taxes during current fiscal year corresponding of the tax return based on the prior year gross sales are applicable to the next fiscal year and recorded as unearned revenues in the General Fund.

13. SALES AND USAGE TAXES

Municipality imposes a Sales and Usage Taxes of 1.5% (1.0% collected and belong to the Municipality and 0.5% collected by the Puerto Rico Secretary of the Treasury) on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item. All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Tax Return Form, no later than the 10th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources (including the 0.5% collected by the Puerto Rico Secretary of Treasury) to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

The amount collected by the Puerto Rico Secretary of Treasury will be deposited in accounts or special funds in GDB, subject to restrictions imposed and distributed as follows:

a. 0.2% will be deposited in a "Municipal Development Fund" to finance costs as restricted by the Act;

b. 0.2% will be deposited in a "Municipal Redemption Fund" to finance loans to municipalities subject to restrictions imposed by the Act; and

c. 0.1% 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.

Sales tax receivable represents filed sales tax returns that were collected subsequent to June 30, 2015, but pertaining to the current year period.

As per Act Number 18 of 2014 was created the "Law of Municipal Administration Fund (MAF)" to establish a special fund called the Municipal Administration, authorize municipalities to pledge the funds deposited in the Local Government Fund to which they are to secure the repayment of any loan, bond, note or other evidence of indebtedness, which are the source of repayment funds deposited in the Special Fund and to meet any expenditure budget of the municipality and the municipality any activity or project, authorize the Government Development Bank for Puerto Rico to make disbursements for purposes set out in this Act.

13. SALES AND USAGE TAXES – continuation

This measure is intended, first, to strengthen the financial capacity of the Corporation Tax Fund of Puerto Rico (COFINA, by Spanish acronyms), established under Law No. 91-2006, as amended, known as the "Law Fund of Sales and Usage Taxes", adjusting the sales and usage taxes (SUT) by increasing the state portion to 6.0% while the municipal SUT is reduced to 1.0%, effective February 1, 2014.

Through this legislation a mechanism under which the SUT collections entitled to receive the Commonwealth of Puerto Rico each fiscal year, after complying with the deposits in the Tax Fund requires by Act No. 91-2006, shall be deposited in a special fund created for the benefit of, and assigned to the municipalities. This special fund is called the "Local Government Fund" ("LGF"), which will be guarded by the Government Development Bank of Puerto Rico.

Also, on February 1, 2014 was enacted the Act No. 19 that creates the Municipal Financing Corporation (COFIM, by Spanish acronyms). The COFIM, attached to the Government Development Bank (GDB), with the power to issue bonds or use other mechanisms to pay or refinance debt incurred by municipalities, the payment of principal and interest is backed by the municipal SUT.

In addition, create the Redemption Fund of COFIM, to which the resources of the existing Municipal Fund Redemption will be transferred effective February 1, 2014, and facilitated the distribution of funds from the Municipal Redemption Fund, the Municipal Development Fund and the Municipal Improvement Fund. Provides that the first proceeds of the municipal SUT of 1% shall be collected by the Puerto Rico Treasury Department and deposited directly into the Redemption Fund of COFIM. Provides that bonds and notes issued by the COFIM be payable and secured by the pledge of a fixed amount, or municipal SUT corresponding to a fixed rate of 0.3% has been collected during the previous fiscal year, whichever is greater.

14. CONSTRUCTION EXCISE TAXES

Municipality imposes and collects municipal construction excise taxes to most natural and legal persons and any governmental instrumentality that carry out activities related to construction, expansion, major repairs, relocations, alterations and other types of permanent improvements to residential, commercial and industrial buildings, and any structures within the territorial area of the Municipality. The tax is also applicable to infrastructure projects, the installation of machinery, equipment and fixtures, and other types of construction-related activities.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project, net of certain exemptions such as the costs associated with the acquisition of land, existing buildings and improvements, project design and other engineering fees, licenses and permits, consulting and legal fees. The tax is paid by the taxpayer before the beginning of the construction project.

A construction project, which doesn't qualify for any of the exceptions presented below, will pay a tax of 8% of the total cost amount of the project. The exceptions for the 8% Construction Tax imposed by the Municipality are as follow:

a. Any religious institution (legally registered as such) which operates as a not-for-profit entity, and is affiliated to the councils and associations that group said institutions in Puerto Rico, will be exempted from payment of any construction tax.

b. When construction is for a residence, made of at least 50% concrete, and said residence is not part of a housing project, urbanization, condominium, or any project of a similar nature (up to a total cost of $90,000); a 4% rate will be collected up to a maximum total construction cost of $90,000 (of which the first $20,000 are exempted). In addition, if the total construction cost is in excess of the $90,000, an 8% rate will be collected and the $20,000 exception will not apply.

14. CONSTRUCTION EXCISE TAXES

c. For any construction not notified to the Municipality, and for which no construction tax has been paid, a 10% (annual) fine over the amounts of tax not paid will be imposed.

Taxes are payable before beginning construction or any activity related to the construction. Collections of taxes during current fiscal year, applicable to the next fiscal year, are recorded as deferred revenues in the General Fund.

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 Special Revenue and the Capital Project Funds. Federal Financial Assistance is recorded in the Special Revenue Fund.

16. PENSION PLAN

Description of the Plan

Employees of the Municipality participate in the Employee's Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) administered by the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. The ERS is cost-sharing multiple-employer defined benefit pension plan sponsored by the Commonwealth under the Act No. 447, approved on May 15, 1951, as amended (Act No. 447) and began operation on January 1, 1952, at which date, contributions by employers and participating employees commenced. Act No. 1 of February 16, 1990 (Act No. 1) and Act No. 305 of September 24, 1999 (Act No. 305 or Hybrid Program) establish, among other things, a defined contribution program. The ERS is a pension trust of the Commonwealth. All qualified permanent and probationary employees of the Commonwealth and its instrumentalities and of certain municipalities and components units not covered by their own retirement systems are eligible to participate in the ERS. As of June 30, 2015, there were 215 participating employers (73 Commonwealth agencies, 78 municipalities, and 64 public corporations, including the ERS). The ERS, as a governmental retirement plan, is excluded from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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

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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (Defined Benefit Program)
- Members of Act No. 1 are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (Defined Contribution Program)

16. PENSION PLAN - continuation

- Members of Act No. 305 are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (Define Contribution Hybrid Program). Each member has a no forfeitable right to the value of his/her account. Members have three options to invest their contributions. Investment income is credited to the member's account semiannually. The Commonwealth does not guarantee benefits at retirement age.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program.

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

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

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

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2013, which provides for incremental annual contributions (Additional Uniform Contribution) of $120.0 million from the Commonwealth General Fund, public corporations and municipalities beginning in fiscal year 2014 and from all employers $352.0 million annually through fiscal year 2032. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. The 2014 budgetary appropriation for such additional contribution of approximately $120.0 million was included in the Commonwealth, public corporations and municipalities for the fiscal year 2014. However, as a result of budgetary constraints at the present time only $14.9 million was paid by the Commonwealth and 20.5 million paid by public corporations and municipalities during fiscal year 2014. The additional contribution for the fiscal year 2015 was $27.0 million paid by the Commonwealth and $27.0 million paid by public corporations and municipalities.

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

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

16. PENSION PLAN – continuation

Act No. 70 established a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Act No. 70 also establishes that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of creditable services and will consist of monthly benefits ranging from 37.5% to 50% of each employees' monthly salary. Benefits under this program will be paid by the General Fund of the Commonwealth and by the public corporations, covering their respective employees until the plan member reaches the later of age 55 for members under Act No. 447 or age 65 for members under Act 1, or the date the plan member would have completed 30 years of service had the member continued its employment. The ERS will be responsible for benefit payments afterwards. In addition, the General Fund and the public corporations will also be required to make the required contributions to the ERS. As of June 30, 2013, the ERS has recorded a liability of approximately $16 million for its responsibility as an employer under Act No. 70.

Furthermore, Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013. Employees participating in the current system (ERS) should be retired as of June 30 2013 in order to obtain the current benefits. Also, Act No. 3 amended the Act No. 305 of September 24, 1999 that's created a Defined Contribution Hybrid Program known as System 2000, incorporating the provisions of the system to Chapter 5 of the ERS. The System 2000 applied to employees joining the ERS on or after January 1, 2000.

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

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

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

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

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

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

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

Participant of the Program

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

16. PENSION PLAN - continuation

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

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

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

Notwithstanding the fact that a superannuation retirement annuity is payable for life, if annuitants return to the service, the payment of their annuity shall be suspended. After an annuitant separates from service, payment of the suspended annuity shall resume and he/she shall also have the option to withdraw the contributions made since the date he/she returned to service up until he/she separates from service if, after returning to service, he/she worked less than five (5) years or accrued contributions for less than ten thousand dollars ($10,000). In the event the annuitant worked five (5) years or more and contributed ten thousand dollars ($10,000) or more, after returning to service, he/she shall be entitled, after his/her separation from service and after reaching the age established in Section 5-110 of Act No. 447, to receive an additional annuity computed pursuant to Section 5-110 of this Act, on the basis of the contributions made since the date said annuitant returned to service until his/her separation from it.

Annuity for Years of Service

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

Public Officers in High-Risk Positions may voluntarily opt to retire after reaching the age of fifty-five (55) and thirty (30) years of service. Retirement shall be mandatory on the date the participant reaches both thirty (30) years of service and the age of fifty-eight (58). Provided, that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority may grant dispensations authorizing members of this group to work for an additional maximum period of two (2) years performing the functions assigned to them; provided that their health and safety are not compromised. Such a request for dispensation shall be made by the member, not later than ninety (90) days before his/her retirement date. It is hereby provided that the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps or the corresponding appointing authority shall make the necessary regulatory provisions to comply with this Act.

16. PENSION PLAN – continuation

Retirement shall be optional for the members of the System in active service, on and after the date they have attained the age of fifty-five (55) years and have completed at least twenty-five (25) years of creditable service; and for members of the System who having reached the age of fifty-eight (58) years, and have completed at least ten (10) years of creditable service. The members of the Police Corps or the Firefighting Corps shall also have the option to avail themselves of a retirement annuity on and after the date on which they have attained the age of fifty (50) years and have completed at least twenty-five (25) years of creditable service.

Any participant whose separation from the service occurs prior to having attained the age of fifty-eight (58) years, who shall have completed at least ten (10) years of creditable service, and who shall have not applied for, nor received reimbursement of accumulated contributions shall be entitled to receive a deferred retirement annuity. Said participants shall receive a deferred retirement annuity which shall commence upon attaining the age of fifty eight (58) years or after attaining the age of fifty (50) years in the case of policemen or firemen, and fifty-five (55) years in the case of the other participants, if they have completed at least twenty-five (25) years of service in one case or the other.

Benefits Provided

The amount of the annuity shall be one and one-half percent (1.50%) of the average compensation multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2%) of the average compensation multiplied by the number of years of creditable service in excess of twenty (20) years. Said annuity shall be payable in full to the members who retire at the age of fifty-eight (58) years or more, and to the members of the Police Corps [or] the Firefighting Corps who retire at the age of fifty (50) years or more and who have completed at least twenty-five (25) years of creditable service. The maximum retirement annuity (as of June 30, 2013) for the participants shall be seventy-five percent (75%) of the average compensation.

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

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

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

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

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

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

16. PENSION PLAN - continuation

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

(1) For those participants who have completed thirty (30) years or more of creditable services and have not attained fifty-five (55) years of age or more, sixty-five percent (65%) of the average compensation.

(2) For those who have completed thirty (30) years or more of creditable services and have attained fifty-five (55) years of age or more, seventy-five (75%) of the average compensation.

(3) Years in excess of thirty (30) may only serve as basis to calculate the average compensation

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

(1) New Retirement Age for participants who joined the System for the first time before April 1, 1990. For those participants who, as of June 30, 2013, have not reached the age of 58 and completed at least 10 years of service, or have not reached the age of 55 and completed at least 25 years of service, retirement shall be optional when they meet the following age and service requirements:

    (i) If, as of June 30, 2013, the participant is 57 years of age, the retirement will be optional when he/she reaches 59 years of age and has completed at least 10 years of service.

    (ii) If, as of June 30, 2013, the participant is 56 years of age, the retirement will be optional when he/she reaches 60 years of age and has completed at least 10 years of service.

    (iii) If, as of June 30, 2013, the participant is 55 years of age or less, the retirement will be optional when he/she reaches 61 years of age and has completed at least 10 years of service.

(2) Retirement Age for participants who joined the System for the first time between April 1, 1990, and December 31, 1999 – For participants who, as of June 30, 2013, have not reached the age of 65 and completed at least 10 years of service, retirement shall be optional when the participant reaches 65 years of age and has completed 10 years of service.

(3) For Public Officers in High-Risk Positions who began to work before April 1, 1990 and who, as of June 30, 2013, have not reached the age of 50 and completed at least 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

(4) For Public Officers in High-Risk Positions who began to work between April 1, 1990, and December 31, 1999, and who, as of June 30, 2013, are not 55 years old and have completed 25 years of service, or who have not completed 30 years of service, regardless of their age, retirement shall be optional when they reach 55 years of age and have completed 30 years of service.

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16. PENSION PLAN - continuation

(5) Public Officers in High-Risk Positions who separate from active service before meeting the requirements of age and service provided in subsection (a)(3) or (a)(4) of this Section may only receive their accrued pension when they meet the following age and service requirements:

(i) If the participant joined the System for the first time before April 1, 1990, after he/she meets the age and service requirements established in subsection (a) 1 of this Section.

(ii) If the participant joined the System for the first time between April 1, 1990, and December 31, 1999, after he/she meets the age and service requirements established in subsection (a) 2 of this Section.

Pension Computation

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

(i) The average salary of employees who began to work before April 1, 1990, shall be the one established in definition number 15 of Section 1-104 of Act No 447.

(ii) The average salary of employees who began to work between April 1, 1990, and December 31, 1999, shall be the one established in Section 1-108 of this Act.

(iii) The pension computation of employees who began to work before April 1, 1990, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to twenty (20) years, plus two percent (2.0%) of the average salary, multiplied by the number of years of creditable service in excess of twenty years, in each case up to June 30, 2013.

(iv) The pension computation of employees who began to work between April 1, 1990 and December 31, 1999, shall be made on the basis of one and one half percent (1.5%) of the average salary, multiplied by the number of years of creditable service up to June 30, 2013.

(v) Participants of the System who, as of June 30, 2013, have availed themselves to the Coordinating Plan and are receiving Social Security benefits will have their annuities adjusted in accordance with the provisions of subsection (e) of Section 2-101 of this Act. Provided that until the participant is entitled to receive the Social Security benefits, he/she may receive an annuity in accordance with Section 5-103 of this Act.

(vi) This pension shall be received together with the annuity accrued by a participant under Section 5-110 of this Act.

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

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

16. PENSION PLAN – continuation

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

(i) If, as of June 30, 2013, the participant is 59 years old, the retirement will be optional when he/she has reached 61 years of age.

(ii) If, as of June 30, 2013, the participant is 58 years old, the retirement will be optional when he/she has reached 62 years of age.

(iii) If, as of June 30, 2013, the participant is 57 years old, the retirement will be optional when he/she has reached 63 years of age.

(iv) If, as of June 30, 2013, the participant is 56 years old, the retirement will be optional when he/she has reached 64 years of age.

(v) If, as of June 30, 2013, the participant is 55 years old or less, the retirement will be optional when he/she has reached 65 years of age.

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

Funding Policy

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

<u>Contributions of Participants of Defined Benefit Program</u>

Contribution requirements are established by law and are as follows:

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

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

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

16. PENSION PLAN – continuation

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

(a) Every participant of the Hybrid Program shall compulsorily have to contribute ten percent (10%) of his/her salary while he/she is an employee.

(b) Contributions under the Plan of Coordination with Social Security benefits – The participants of the System who, as of June 30, 2013, have availed themselves to the Plan of Coordination with Social Security benefits shall contribute to the Hybrid Program:

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

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

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

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

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

Employer Contributions to the System (ERS and Hybrid Program)

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

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

July 1, 2013	Twelve point two hundred seventy-five percent (12.275%) of the salary of each participant
July 1, 2014	Thirteen point two hundred seventy-five percent (13.275%) of the salary of each participant
July 1, 2015	Fourteen point two hundred seventy-five percent (14.275%) of the salary of each participant

16. PENSION PLAN – continuation

July 1, 2016	Fifteen point five hundred twenty-five percent (15.525%) of the salary of each participant
July 1, 2017	Sixteen point seventy hundred seventy-five percent (16.775%) of the salary of each participant
July 1, 2018	Eighteen point twenty-five percent (18.025%) of the salary of each participant
July 1, 2019	Nineteen point two hundred seventy-five percent (19.275%) of the salary of each participant
July 1, 2020	Twenty point five hundred twenty-five percent (20.525%) of the salary of each participant

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

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

Death of a Pensioner

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

Separation from Service for Disability or Terminal Illness

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

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

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to $5,233.

16. PENSION PLAN – continuation

Additional Benefits Program

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

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

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

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

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

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

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

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

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

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

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

16. PENSION PLANS – continuation

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program is measured as of June 30, 2014, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Municipality's proportionate share was 0.05976%. The Municipality's proportionate share of the Net Pension Liability for each plan as of June 30, 2015 was as follows:

		Proportionate Share of Net Pension Liabiliy
Act Number 447	$	14,184,728
Act Number 1		2,582,850
Act Number 305		1,216,822
Total Net Pension Liability	$	17,984,401

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of $1,031,379. As of June 30, 2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 620,961	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	805,896	143,919
Total	$ 1,426,857	$ 143,919

$1,426,857 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2016	$ 28,784
2017	28,784
2018	28,784
2019	28,784
2020	28,783

16. PENSION PLANS – continuation

Actuarial Assumptions

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

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

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

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

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

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

16. PENSION PLAN – continuation

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

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

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

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

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

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

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

Illiquid Assets

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

16. PENSION PLANS – continuation

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

Net Pension Liability	June 30, 2014	
	Total	Proportional Share (0.05976%)
Total Pension Liability	$30,219,517,000	$18,060,588
Fiduciary Net Position	127,488,000	76,187
Net Pension Liability	30,092,029,000	17,984,401
Fiduciary Net Position as a % of Total Pension Liability	0.42%	0.42%
Covered Payroll	$ 3,489,096,000	$ 2,155,515
Net Pension Liability as a % of Covered Payroll	862.46%	834.34%

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

Discount Rate

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

	June 30, 2013	June 30, 2014
Discount Rate	4.63%	4.29%
Long-term expected rate of return net of investment expense	6.40%	6.75%
Municipal bond rate *	4.63%	4.29%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

16. PENSION PLANS – continuation

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

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as of June 30, 2013	$28,941,368,000	$ 701,361,000	$28,240,007,000	$17,104,046
Changes for the year:				
Service Cost	419,183,000	-	419,183,000	250,504
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	789,715
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) of Losses	(61,855,000)	-	(61,855,000)	(36,965)
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	716,109
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	17,647
Other Expenses	-	(25,875,000)	25,875,000	15,463
Costs of Bonds	-	(192,947,000)	192,947,000	115,305
Member Contributions	-	359,862,000	(359,862,000)	(441,467)
Net Investment Income	-	253,558,000	(253,558,000)	(151,526)
Employer Contributions	-	660,024,000	(660,024,000)	(394,430)
Balance as of June 30, 2014	$30,219,517,000	$ 127,488,000	$30,092,029,000	$17,984,401

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

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

	1% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	$20,480,853	$18,060,588	$16,053,797
Fiduciary Net Position	76,187	76,187	76,187
Net Pension Liability	$20,404,666	$17,984,401	$15,977,610

16. PENSION PLANS – continuation

Payable to the Pension Plan

At June 30, 2015, the Municipality reported a payable of $90,288 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Pension Plan Fiduciary Net Position

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

17. HEALTHCARE COSTS

During the year ended June 30, 2000 the Governor of the Commonwealth of Puerto Rico required to the municipalities of Puerto Rico an annual contribution to subsidy the cost of the implementation and administration of the Healthcare Reform. Such contributions are required to be disbursed from general fund operating budget. Total contributions made by the Municipality amounted to approximately $624,038 for the fiscal year ended June 30, 2015.

18. CONTINGENCIES

A. Claims and Judgments

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

In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in discovery stage. Certain of these claims are covered by insurance. Legal counsel with the information currently available cannot determine the final outcome of these claims. Accordingly, the financial statements do not include adjustment, if any, that could result from the resolution of this legal proceeding. However, it has been the Municipality's experience that such actions are settled for amounts substantially less than the claimed amounts.

B. Federal Grants

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

19. COMMITMENTS

A. Operating Leases

The Municipality leases equipment under various operating lease agreements, which generally have terms of one year or less and are automatically renewed for the same term. Rental expenditures/expenses recorded in the general fund for the year ended June 30, 2015, amounted to approximately $71,500. Management believes that the summary of the future minimum rental commitments under noncancelable equipment lease with terms exceeding one year is not material to the basic financial statements taken as a whole.

19. COMMITMENTS – continuation

B. Construction and Improvement Commitments

The Municipality had encumbrances at June 30, 2015 for the construction, improvements, or renovation of several municipal facilities in the following funds:

	Encumbered For		Amount	Reported within Fund Balance Classification
Other Governmental Funds	Agustin Reyes Track Remodel	$	200,000	Restricted for Improvement to Recreational Facility
Other Governmental Funds	Construction of Josefa Dominguez Library		50,000	Restricted for Construction of Facility

C. Other Commitments

At June 30, 2015, the general fund had a deficit of $1,422,149 which will be covered with future budgetary appropriations of the general fund. The deficits result from the accrual of expenditures without accruing intergovernmental revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental revenues for reimbursement-based (expenditure-driven) grants on GFFS when all applicable eligibility requirements have been met and the resources are available. Any amount not covered by the corresponding award will be covered with future budgetary appropriations of the general fund, if necessary.

20. NET POSITION RESTATEMENTS

The following reconciles the June 30, 2014 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2014 for the various funds:

Net Position, as Previously Reported,		
At June 30, 2014	$	24,455,033
Implementation of GASB 68		(16,483,085)
Beginning Net Position, as Restated,		
At July 1, 2014	**$**	**7,971,948**

21. NEW ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency though revised and new note disclosures and required supplementary information.

The primary government of the Commonwealth, as well as its component units and the municipalities, are considered "cost-sharing" employers of the Retirement Systems; therefore, they would report its allocated share of the Commonwealth's resulting Net Pension Liability from Statement 67 as follows:

- Based on their respective individual proportion to the collective net pension liability of all the governments participating.

21. NEW ACCOUNTING STANDARDS - continuation

- The proportion should be consistent with the method used to assess contributions (percentage of payroll). The use of their respective long term expected contribution effort to Retirement Systems divided by those of all governments in the plan, is encouraged.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (FY2014-2015). Earlier application is encouraged. The Commonwealth and the Retirement Systems are in the process of evaluating the impact of this Statement on its agencies and component units and also on the municipalities of the Commonwealth. The information to adopt this Statement will be based on the new actuarial reports to be prepared under the new Statement No. 67.

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

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

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

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

GASB 69 does not have any impact on the Municipality's financial statements.

22. SUBSEQUENT EVENT

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 31, 2016, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

	Budget Amounts		Actual Amounts (Budgetary Basis) (See Acompanying Notes)	Variance with Final Budget
	Original	Final		
BUDGETARY FUND BALANCE (DEFICIT), JULY 1, 2014	$ (4,132,170)	$ (4,132,170)	$ (4,132,170)	$ -
Resources (Inflows):				
Property Taxes	3,417,790	3,417,790	3,417,790	-
Volume of Business Taxes	2,675,000	2,675,000	2,657,667	(17,333)
Sales and Usage Taxes	1,254,500	1,254,500	1,286,531	32,031
Construction Excise Taxes	306,000	306,000	346,586	40,586
Intergovernmental Revenues	6,113,269	6,113,269	6,585,153	471,884
Rent	110,000	110,000	75,533	(34,467)
Transfer in	-	-	309,534	309,534
Miscellaneous	488,000	488,000	283,928	(204,072)
Total Resources (Inflows)	14,364,559	14,364,559	14,962,722	598,163
Amounts Available for Appropriation	10,232,389	10,232,389	10,830,552	598,163
Charges to Appropriations (Outflows):				
Mayor and Municipal Legislature	2,475,641	2,534,694	2,121,741	412,953
General Government	7,577,013	7,708,042	9,146,857	(1,438,815)
Public Safety	501,705	417,333	356,602	60,731
Public Works	1,503,489	1,656,553	1,707,148	(50,595)
Culture and Recreation	456,031	431,067	422,357	8,710
Health and Sanitation	1,162,277	1,126,865	1,124,038	2,827
Human Services and Welfare	119,535	138,011	137,995	16
Capital Outlays	36,500	94,616	91,905	2,711
Transfer to Other Funds	532,368	257,378	257,378	-
Total Charges to Appropriations	14,364,559	14,364,559	15,366,021	(1,001,462)
BUDGETARY FUND BALANCE (DEFICIT), JUNE 30, 2015	$ (4,132,170)	$ (4,132,170)	$ (4,535,469)	$ (403,299)

The accompanying Notes to Required Supplementary Information are an integral part of this schedule.

1. Budgetary Reporting

The Budgetary Comparison Schedule – General Fund is presented as Required Supplementary Information in accordance with GASB Accounting Standard Codification Section 1700, *The Budget and Budgetary Accounting.* Formal and legal budgetary control is based upon major classes of expenditures known as functions.

2. Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Available for Appropriation" from the Budgetary Comparison Schedule (See Page xx)	$ 10,830,552
Difference – Budget to GAAP:	
GASB 54 Reclasification of Revenue	39,038
The Fund Balance (Deficit) at the Beginning of Year is a budgetary resource but is not a Current-Year Revenue for financial reporting purposes	4,132,170
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(309,534)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page xx)	$ 14,692,226
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page xx)	$ 15,366,021
Difference – Budget to GAAP:	
Non budgetary expenditures (expenditures reclasification GASB 54)	-
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(938,530)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	801,905
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(257,378)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page xx)	$ 14,972,018

END OF THIS SECTION

Line Ited No. Assets		Value
	Current Assets - Cash:	
111	Cash - Unrestricted	$ 30,614
113	Cash - Other Restricted	1,789.00
100	**Total Cash**	32,403
	Receivables:	
121	Accounts Receivable - PHA Projects	14,241
124	Accounts Receivable - Other Government	608
128	Fraud Recovery	4,632
120	**Total Receivables, Net of Allowances for Doubtful Accounts**	19,481
150	**Total Current Assets**	51,884
190	**Total Assets**	51,884
200	Deferred Outflow of Resources	-
290	**Total Assets**	$ 51,884
Liabilities and Equity		
	Current Liabilities:	
312	Accounts Payable <= 90 Days	2,800
333	Accounts Payable - Other Government	21,433
310	**Total Current Liabilities**	24,233
300	**Total Liabilities**	24,233
	Equity:	
511.4	**Restricted Net Position**	1,789
512.1	**Unrestricted Net Position**	25,862
513	**Total Equity / Net Position**	27,651
600	**Total Liabilities and Equity / Net Position**	$ 51,884

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

Line Ited No.		Value
Revenues		
70600	HUD PHA Operating Grants	$ 556,070
71100	Investment Income - Unrestricted	236
71500	Other Revenue	46,251
70000	**Total Revenues**	**602,557**
Expenses		
	Administrative:	
91100	Administrative Salaries	43,270
91500	Employee Benefit Contributions - Administrative	15,060
91600	Office Expense	-
91900	Other	-
91000	**Total Operating - Administrative**	**58,330**
96900	**Total Operating Expenses**	**58,330**
97000	**Excess of Operating Revenue over Operating Expenses**	**544,227**
97300	Housing Assitance Payments	506,666
97350	HPA Portability-In	31,661
90000	**Total Expenses**	**596,657**
97000	**Excess (Deficiency) of Total Revenue over (under) Total Expenses**	**$ 5,900**
10010	Operating Transfer in	12,584
10100	**Total Other Financing Sources (uses)**	**12,584**
10000	**Excess (Deficiency) of Total Revenue over (under) Total**	**$ 18,484**
	Memo Account Information:	
*11030	Beginning Equity	$ (9,167)
11040	Prior Period Adjustments, Equity Transfers and Correction of Errors	$ -
*11170	Administrative Fee Equity	$ 25,862
*11180	Housing Assistance Payments Equity	$ 1,789
*11190	Unit Months Available	1,200
*11210	Number of Unit Months Leased	1,112

The accompanying Notes to Financial Data Schedule are an integral part of this Supplementary Information.

1. BASIS OF PRESENTATION

The accompanying Financial Data Schedule (FDS) includes the Section 8 Housing Choice Vouchers Program activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in the FDS is presented in accordance with the requirements of *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.* Because the FDS presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net position of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assets, Liabilities, Net Assets, Revenues and Expenses reported on the FDS, are reported on the full accrual basis of accounting. They are recognized following the *HUD's Uniform Financial Reporting Standards for HUD Housing Programs.*

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Assets, Liabilities and Net Assets are presented in the Municipality's *Statement of Net Position*. Revenues and Expenses are reported in the *Statement of Activities.*

END OF NOTES

		2015
Proportion of the Net Pension Liability		0.05976%
Proportionate Share of the Net Pension Liability	$	17,984,401
Covered - Employee Payroll	$	2,155,515
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll		834.34%
Plan's Fiduciary Net Position	$	76,187
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		0.42%

Notes to Schedule:

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

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

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

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

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

		2015
Contractually Required Contribution (Actuarially Determined)	$	1,089,231
Contributions in Relation to the Actuarially Required Contributions		324,900
Contribution Deficiency (Excess)	$	764,331
Covered - Employee Payroll	$	2,155,515
Contributions as a Percentage of Covered-Employee Payroll		15.07%

Notes to Schedule:

Valuation Date:	06/30/14

Methods and Assumptions Used in Calculation of the ERS's Annual Required Contributions

Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Pension Benefits Schedule of the Employers' Contributions:

Assets Valuation Method	Market Value of Assets
Inflation	2.5%
Investment Rate of Return	6.75%, Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	4.29%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	4.29%
Projected Salary Increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

Mortality

Pre-retirement Mortality:

For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

100.0% of deaths while in active service are assumed to be occupational for members covered under Act No. 127.

Post-retirement Healthy Mortality:

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality:

Rates which vary by gender are assumed fordisabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture Direct Program:			
Community Facilities Loans and Grants	10.766	06-24-2011	$ 6,683
Pass-Through State – Administration of Families and Children			
Child and Adult Care Food Program	10.558	CCC-193	87,596
Total Department of Agriculture			94,279
U.S. Department of Housing and Urban Development Direct Programs:			
Section 108 Loan Guarantees	14.248		993,733
Section 8 Housing Choice Voucher	14.871	RQ037	564,996
Subtotal Department of Housing and Urban Development Direct Programs			1,558,769
Pass-Through State from – Office of the Commissioner of Municipal Affairs			
Community Development Block Grant/States Program (SBGP) And Non Entitlements Grants in Hawaii (Stated Administered Small Cities Program)	14.228		507,112
Pass-Through Department of Family			
Emergency Solutions Grants Program	14.231	N/AV	2,128
Homelessness Prevention and Rapid Re-Housing Program	14.257	N/AV	1,399
Pass-Through Department of Housing of San Juan Puerto Rico			
Housing Opportunities for persons with AIDS	14.241	N/AV	52,612
Subtotal Department of Housing and Urban Development Pass-Through Programs			563,251
Total Department of Housing and Urban Development			2,122,020
U. S. Department of Transportation:			
Federal Transit – Formula Grants (Urbanized Area Grant Program)	20.507	N/AV	30,097
Total Department of Transportation			30,097

The accompanying *Notes to Schedule of Expenditures of Federal Awards* are an integral part of this schedule.

U. S. Department of Education:			
Twenty-First Century community Learning centers	84.287	N/AV	25,494
Total Department of Education..			25,494
U. S. Department of Health and Human Services:			
Pass-Through Puerto Rico Office for Elderly Affairs:			
Special Programs for the Aging-Title III, Part B Grants for Supportive Services and Senior Centers	93.044	N/AV	157,253
Special Programs for the Aging-Title III, Part C Nutrition Services	93.045	N/AV	0
Pass-Through Administration for the Childhood Care And Integral Development:			
Child Care and Development Block Grant.............................	93.575	241-2015-000074	550,122
Total Department of Health and Human Services..................			707,375
U. S. Department of Homeland Security:			
Pass-Through Governor Office:			
Public Assistance Grants..	97.036	FEMA 1798, FEMA 1946, FEMA 4017	360,991
Homeland Security Grant Program..................................	97.057	N/AV	6,259
Total Department of Homeland Security....................................			367,250
TOTAL EXPENDITURES OF FEDERAL AWARDS....................			**$ 3,346,475**

The accompanying *Notes to Schedule of Expenditures of Federal Awards* are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activities of the Autonomous Municipality of San Lorenzo of the Commonwealth of Puerto Rico (Municipality). The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Municipality, it is not intended to and does not present the financial position, or change in net assets of the Municipality.

Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Municipality reporting entity is defined in Note (1) (A) to the basic financial statements. All federal financial awards received directly from federal agency as well as federal financial awards passed-through other government agencies are included on the Schedule.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Government,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. Pass-through entity identifying numbers are presented where available.

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. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* in the Other Governmental Funds column.

END OF NOTES

TORRES, HERNANDEZ & PUNTER, CPA, PSC
Certified Public Accountants

INDEPENDENT AUDITORS' 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

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Municipality of San Lorenzo of the Commonwealth of Puerto Rico, (from now on 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, and have issued our report thereon dated March 31, 2016. Our report was qualified because the Municipality was unable to obtain sufficient appropriate audit evidence about the proportional share used to determine the deferred outflows/inflows of resources, net pension liability, pension expenses of the governmental activities and note of pensions plan related to the implementation of the Governmental Accounting Standards Board (GASB) 68, "Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB 68". Consequently, we were unable to determine whether any adjustments to these amounts and disclosure were necessary.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiency. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weaknesses, as item #15-01.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs, as item #15-01.

The Municipality's Response to Findings

The Municipality's response to the internal control over compliance finding identified is described in a separate document (Corrective Action Plan) prepared by the Municipality. The 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 Municipality's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Municipality's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 31, 2016

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

Independent Auditor's Report

To the Honorable Mayor and
Municipal Legislature
Municipality of San Lorenzo

Report on Compliance for Each Major Federal Program

We have audited the Municipality of San Lorenzo of the Commonwealth of Puerto Rico, (from now on the 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 of the Municipality's major federal programs for the 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 the Municipality's compliance.

Basis for Qualified Opinion on Section 108 Loan Guarantees

As described in the accompanying schedule of findings and questioned costs as item #15-01, the Municipality did not comply with requirements regarding Allowable Costs that is applicable to Section 108 Loan Guarantees. Compliance with such requirement is necessary, in our opinion, for the Municipality to comply with the requirements applicable to that program.

Qualified Opinion on Section 108 Loan Guarantees

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion Paragraph, the Municipality complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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Other Matters

The Municipality's Response to Findings

The Municipality's responses to the compliance finding identified is described in a separate document (Corrective Action Plan) prepared by the Municipality. 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 the 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the 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. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiency. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be material weaknesses, described in the accompanying schedule of findings and questioned costs as item #15-01.

The Municipality's responses to the internal control over compliance finding identified is described in a separate document (Corrective Action Plan) prepared by the Municipality. The 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 (Continued)

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

Torres, Hernández & Punter, CPA, PSC

Torres, Hernández & Punter, CPA, PSC
Certified Public Accountants

Carolina, Puerto Rico

March 31, 2016

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COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2015

Part I - Summary of Audit Results:

Financial Statements

The independent auditor's report on the basic financial statements expressed a qualified opinion.

Internal Control Over Financial Reporting:

Material weaknesses identified?	X yes	___ no
Significant deficiencies identified?	___ yes	X none reported
Noncompliance material to the Statement noted?	X yes	___ no

Federal Awards

Internal control over major programs:

Material weaknesses identified?	X yes	___ no
Significant deficiencies identified?	___ yes	X none reported

The independent auditor's report on compliance with requirements applicable to major federal awards program expressed a qualified opinion.

The audit disclosed findings to be reported in accordance with OMB Circular A-133, Section 510(a).	X yes	___ no

Municipality's major awards during the year ended June 30, 2015 were:

CFDA #14.248 - Section108 Loan Guarantees,
CFDA #14.228 - Community Development Block Grant/States Program (SBGP),
CFDA #14.871 - Section 8 Housing Choice Voucher Program,
CFDA #93.575 - Child Care and Development Block Grant, and
CFDA #97.036 - Public Assistance Grant.

A threshold of $300,000 was used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133, Section 520 (a).

Municipality qualify as a low risk auditee?	___ yes	X no

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Part II - Findings Related to the Financial Statements:

No findings related to the financial statements were noted.

Part III - Findings and Questioned Costs Related to Federal Awards:

Presentation follows compliance requirements included in the Compliance Supplement of OMB Circular A-133 "Audits of States, Local Governments, and Non-profit Organizations".

A - Activities Allowed or Unallowed

FINDING NUMBER 15-01: TRANSFER OF FUNDS BETWEEN SECTION 108 PROGRAM AND GENERAL FUND

FEDERAL PROGRAM: CFDA # 14.248 - Section 108 Loan Guarantee Assistance

CONDITION: The Municipality used cash resources from its Section 108 Loan Guarantee Assistance Program and transfer them to the Municipality's general fund for its general operations, in violation of the program's loan agreement and applicable federal regulations.

CRITERIA: The Municipality's Section 108 Loan Guarantee funds were obtained through a contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974 (42 USC § 5308), signed by the Municipality and the Puerto Rico State Cognizant Agency (Office of the Commissioner for Municipal Affairs) on August 29, 2006 and also signed by the US Department of Housing and Urban Development (HUD) on September 13, 2006 (the "loan agreement"). In Paragraph 1(a) of such agreement, withdrawal of the loan guarantee funds is restricted for use in Section 108 related activities, as approved by HUD and economic development activities, pursuant to 24 CFR 570.703 and 570.203, which include the construction of an activity center (paragraph 15(b) of the loan agreement).

CONTEXT: The Municipality used cash resources from Section 108 Loan Guarantee Assistance fund accounts, as temporary loans to the Municipality's general fund to cover cash needs related to its general operations, in violation of the loan agreement and program regulations.

CAUSE: The Municipality's Finance Department decided to use resources from the Section 108 Loan Guarantee program to cover cash need of its operations.

EFFECT: The Municipality was not in compliance with the loan agreement signed, as described above.

RECOMMENDATION: The Municipality must reimburse all resources transferred or loaned to the Municipality's general fund to the Section 108 Loan Guarantee Assistance program accounts immediately and implement control procedures to avoid this practice in future awards. As of financial statement date, the Municipality already reimbursed all funds used by the general fund.

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

FINDING NUMBER 15-01: TRANSFER OF FUNDS BETWEEN SECTION 108 AND GENERAL FUND (CONTINUED)

QUESTIONED COSTS: None

MANAGEMENT RESPONSE: See corrective action plan.

B - Allowable Costs/Costs Principles

No Conditions Detected.

C - Cash Management

No Conditions Detected.

D - Davis - Bacon Act

No Conditions Detected.

E - Eligibility

No Conditions Detected.

F - Equipment and Real Property Management

No Conditions Detected.

G - Matching, Level of Effort and Earmarking

N/A.

H - Period of Availability of Federal Funds

No Conditions Detected.

COMMONWEALTH OF PUERTO RICO
MUNICIPALITY OF SAN LORENZO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Part III - Findings and Questioned Costs Related to Federal Awards: (Continued)

I - Procurement and Suspension and Debarment

No Conditions Detected.

J - Program Income

No Conditions Detected.

K - Real Property Acquisition and Relocation Assistance

N/A.

L - Reporting

No Conditions Detected

M - Subrecipient Monitoring

N/A

N - Special Tests and Provisions

No Conditions Detected

(1) Audit Findings that have been Fully Corrected:

Finding Number	**14-04**	**Cash Management** Municipality maintained cash resources in excess of amounts immediately necessary for its operations.
CFDA Number	14.228	
Questioned Cost	None	
Status	Corrected	
Finding Number	**2013-003**	**Activities Allowed and Unallowed and Cash Management** Municipality maintained cash resources in excess of amounts immediately necessary for its operations and used such excess funds for its own general operations, in violation of the program's applicable federal regulations.
CFDA Number	14.228	
Questioned Cost	None	
Status	Corrected	
Finding Number	**2013-004** **2013-006** **2012-002** **2012-004**	**Activities Allowed and Unallowed** Municipality used cash resources for its own general operations, in violation of the program's applicable federal regulations.
CFDA Number	14.257, 14.871, 14.228	
Questioned Cost	None	
Status	Corrected	

(2) Audit Findings not Corrected or Partially Corrected:

Finding Number	**2013-003** **2012-001**	**Activities Allowed or Unallowed** Municipality used cash resources from its Community Development Block Grant – Section 108 Loan Guarantee program funds for its own general operations, in violation of the program's loan agreement and applicable federal regulations
CFDA Number	14.248	
Questioned Cost	None	
Status	Not Corrected	

(2) Audit Findings not Corrected or Partially Corrected:(Continued)

Auditee Comments Pending of final determination of the US Department of Housing and Urban Development.

(3) Corrective action taken is significantly different from corrective action previously reported:

NONE

(4) Audit findings is no longer valid:

NONE

MUNICIPALITY OF SAN LORENZO
San Lorenzo, Puerto Rico

CORRECTIVE ACTION PLAN FOR THE SINGLE AUDIT REPORT OF YEAR ENDED JUNE 30, 2015

FINDING NUMBER	FINDING	RESPONSIBLE INDIVIDUAL	CORRECTIVE ACTION PLAN	COMPLETION DATE
15-01	Transfer fund between Section 108 and General Fund	Pedro González Rodríguez Finance Director	The Finance Director made the corresponding reimbursement to Section 8 account. In June 2015, the Finance Director repaid these funds.	June 2015

Name: Pedro González Rodríguez
Position: Finance Director
Date: March 31, 2016

Estado Libre Asociado de Puerto Rico
Municipio Autónomo de San Lorenzo
Oficina de Auditoría Interna
Apartado 1289
San Lorenzo, PR 00754

Hoja de Trámite

O.C.A.M.
AREA DE ASESORAMIENTO GERENCIAL Y FISCAL
16 APR -6 PM 1:40

Lcdo. Carlos M. Santini Rodríguez
Comisionado
OCAM
San Juan, PR 00936

Vivian Vélez Flores
Directora
Auditoría Interna

6 de abril de 2016

RE: Entrega de documentos

- Copia del Single Audit al 30 de junio de 2015
- Copia del Plan de Acción Correctiva

Recibido por: ______________________ Fecha: ______________

16 APR-6 AM 9:54
16-04.1697

Entregado por: ______________________ Fecha: ______________