Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2016

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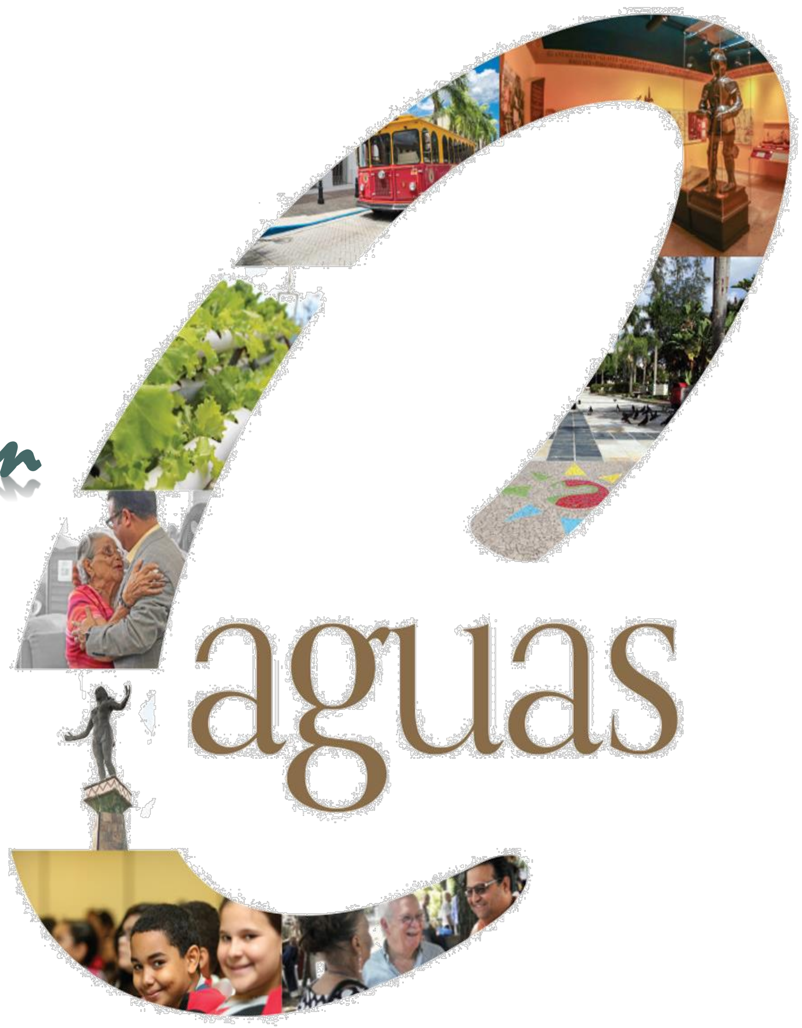
We believe in



WILLIAM E. MIRANDA TORRES, MAJOR

AUTONOMOUS MUNICIPALITY OF CAGUAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

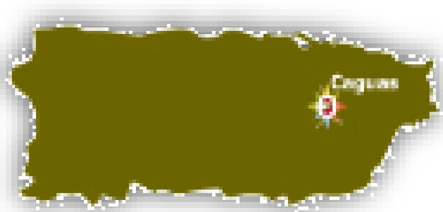
For the Fiscal Year Ended June 30, 2016

Autonomous Municipality of Caguas

For the Fiscal Year ended June 30, 2016

Honorable William E. Miranda Torres, Mayor

Prepared by Finance Department



Víctor M. Coriano Reyes

Secretary of Administration

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Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

March 28, 2017

To the Honorable Mayor, City Council and Citizens of the Autonomous Municipality of Caguas:

The law requires that all general purpose local governments publish a complete set of financial statements within six months after the end of the fiscal year. These financial statements must be audited by a firm of licensed Certified Public Accountants and presented in conformity with Generally Accepted Accounting Principles (GAAP). Pursuant to the aforementioned requirements we hereby submit the Comprehensive Annual Financial Report (CAFR) of the Autonomous Municipality of Caguas, Puerto Rico for the fiscal year ended June 30, 2016.

This report consists of management's representations concerning the finances of the Municipality. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable assurance rather than absolute assurance that financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The Municipality's financial statements have been audited by CPA Diaz Martinez, PSC, a public accounting firm fully licensed and qualified to perform audits of local governments. The goal of the independent audit was to provide reasonable assurance that the Municipality's financial statements, for the fiscal year ended on June 30, 2016, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by the Management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinions that the Municipality's financial statements as of and for the year ended June 30, 2016, are fairly presented in conformity with the accounting principles generally accepted in the United States of America, except for the governmental activities of the government-wide financial statements, due to that the implementation of GABS Nos. 68 and 71 was based on unaudited financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, a cost-sharing multi-employer pension plan in which the Municipality is an employer. The Municipality don't have control to produce the audited financial information and depend of the ERS's management and plan auditors (see Note 18 of the Basic Financial Statements for more information). The independent auditor's report is presented as the first component of the Financial Section of this report.

GAAP requires that Management provides a narrative introduction, overview and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The Municipality's MD&A can be found immediately following the independent auditor's report in the financial section of the CAFR.

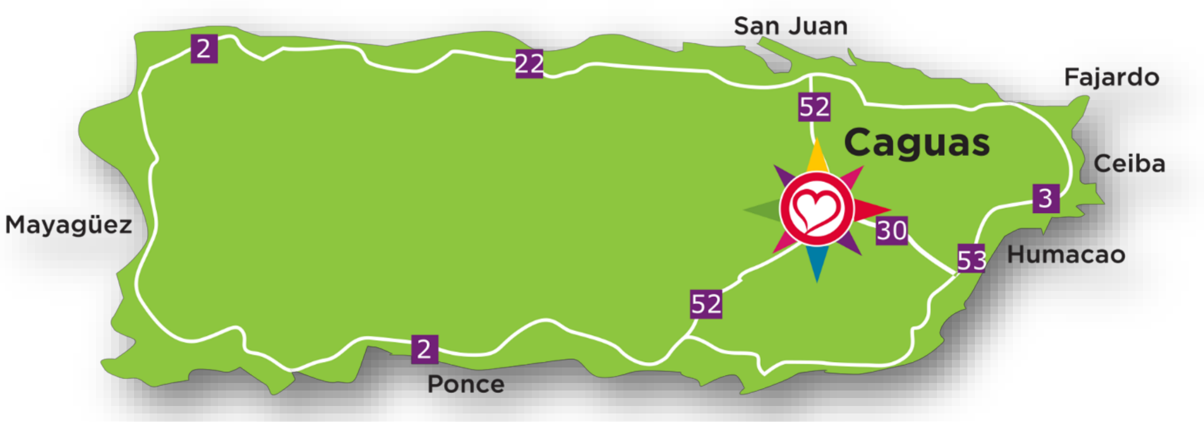
Puerto Rico 2016…

Puerto Rico had one of the most dynamic economies in the Caribbean region until 2006; however, growth has been negative for each of the last nine years. The downturn coincided with the phase-out of tax preferences that had led US firms to invest heavily in the Commonwealth since the 1950s, and a steep rise in the price of oil, which generates most of the island's electricity.

Diminished job opportunities prompted a sharp rise in outmigration, as many Puerto Ricans sought jobs on the US mainland. Unemployment reached 16% in 2011, but declined to 13.7% in December 2014. US minimum wage laws apply in Puerto Rico, hampering job expansion. Per capita income is about half that of the US mainland.

The industrial sector greatly exceeds agriculture as the locus of economic activity and income. Tourism has traditionally been an important source of income with estimated arrivals of more than 3.6 million tourists in 2008. Puerto Rico's merchandise trade surplus is exceptionally strong, with exports nearly 50% greater than imports, and its current account surplus about 10% of GDP.

Closing the budget deficit while restoring economic growth and employment remain the central concerns of the government; the gap between revenues and expenditures narrowed to 0.2% of GDP in 2014, although analysts believe that not all expenditures have been accounted for in the budget and a better accounting of costs would yield an overall deficit of roughly 5% of GDP in 2014. Public debt rose to 105% of GDP in 2015, about $17,000 per person. Much of that debt was issued by state-run schools and public corporations, including water and electric utilities. In June 2015, Governor Alejandro Garcia Padilla announced that the island could not pay back at least $73 billion in debt and that it would seek a deal with its creditors.



Located in the Central-Eastern region, set at the crossroads of the main highways; connecting the north to the south and the center to the east of the Island, Caguas is the place where the past, present and future of the Puerto Rican culture meet.

The Municipality is the Island´s fifth largest city, and according to the 2010 Census, it has a population of 142,893, and a population density of 2,394 residents per square mile. The boundary encompasses an area of approximately 58.07 square miles and is divided in 11 political subdivisions or wards ("barrios").

Caguas, the geographical heart of Puerto Rico, symbolizes everything that is authentically creole. It represents everything Puerto Ricans love about our country, the genuine, the autochthonous, and the things that undeniably characterize Puerto Rico as a nation.

This work of art, *"De un corazón, tres latidos",* represent the footprint of the talent of each mayor and recognizes two mayors that had been very important in the makes of honor to the history, legacy and the path by the well common of Caguas. Also, this painting was achieved by bringing together sixteen painter from different background to help create this work of art.

Finance and Administration

At the end of the fiscal year 2015-2016, the General Fund's financial resources amounted to $102.9 million, while expenditures were of $110.9 million; Caguas closed the fiscal year with approximated deficit of $8 million.

The revenues from local contributions include:

- $33.5 million of property tax, this represent a 1% decreased compared as last year and a 6% reduction as for the last two years.
- $23.2 million in Volume of Business Taxes, which represents a 4% reduction compared with last year. This decrease arises from tax exemption decrees that were granted to 47 established businesses in Caguas.
- $3.9 million in construction excise taxes, amount that have been sustained thanks to initiatives as incentives and inspection control.

In addition, the General Fund received $11.4 million of intergovernmental revenues and $1.8 million for other items, such as rents, services, fines and bank interest.

During fiscal year 2015-2016, the Department of Finance successfully continued its special inspection and analysis of financial statements of taxpayer project, where 37 tax evasion cases were identified in municipal patents and constructions taxes, which generated $1.5 million in extraordinary income.

Since the approval of Act No. 63 of June 21, 2010, our municipality is responsible for itself, without being subject to the Area Public Insurance. This measure has proven that local governments are more efficient than the central government in managing resources. This has allowed checking the value of more than fifty properties by adjusting their replacement costs, updating our accounting records of property and specifications in insurance policies need; creating for a second year a decrease in insurance cost, generating savings of approximating $750 thousands.

We exercised effectively our role in monitoring the revenues and expenses, as well as the Capital Improvement fund, with the purposed of optimizing the use of financial resources. As result, we identified savings of $3.6 million. This was use to expand the services of the maintenance of green areas and the collection of tires.

In Caguas, we encourage the citizens and other non-governmental sectors in the decisions on the use of the municipal budget. During last fiscal year we supported sixteen non-profit organizations with donations of $335 thousands. In the same way, we contributed around $2.7 million to corporations affiliated to the Municipality, who's the majority came from the private sector, mainly the industrial and education sector. Also contributed to community associations, this gave citizens the opportunity to participate in addressing the development and needs of projects in their communities.

As part of our economic strategy to stimulate an increase in the cash flow of the local economy, the Department of Purchasing and Auctions managed to award 40% of the purchases of material and services to local business in Caguas and the region. This represents a local investment of $21.9 million, of which $17.8 million were exclusive to local businesses in Caguas.

Economic Development

For the second consecutive year we activated a board of Inter-Auction composed of officials from the municipalities of Humacao, Yabucoa and Caguas, responsible for performing procedures for procurement of goods and services together, in order to streamline administrative procedures and achieve savings in the cost of products for volume purchases.

The Department of Permits implemented in 2013, online services for the transmittal of permits, this allowed the department to become for accessible for services. Thanks to this service, the Department of Permits received more than 2,000 applications permits of use and for constructions. It registers an investment of around $15.2 million in constructions. For that, they granted more than 1,100 applications and 150 permits for constructions. Compared to with other years, the authorizations for permits of constructions increased 9%.

Department of Economic Development has in charge different projects to develop the enterprenual culture with a global perspective, sustainability and social economy. The area of business support, not only work to achieve the projects, but also one of their projects, “Arranque Empresarial Juvenil”, was recognized for the first time for Caguas and Puerto Rico with a gold medal in the categories in cities of 25,000 and 200,000 habitants, by the International Economic Development Council.

The “Arranque Empresarial Juvenil” provides students in elemental school thru high school the enterprenual formation to help create the conscience of how to start a business and how to develop it; fomenting enterprenualship as a real alternative for the future.

Department of Municipal Secretary has launched an alliance with a Puerto Rican Startup call Spotery, which allows to market and rent traditional and not traditional places for different events.

PromoCaguas is also directly involved in promoting export efforts. Caguas and PR SBTDC have a nationwide partnership agreement, unique in its kind, where its regional office is physically established in our PromoCaguas' business services office. As part of this partnership, support and training is offered to companies who have potential and are interested in the export business. Another important initiative implemented by PromoCaguas is the Non-Traditional Business Training Program, "Caguas Compite". This is a unique project at a municipal level, and that help entrepreneurs of Caguas and other areas. This program has helped three local businesses, Sangria Los Hermanos, Gascot Industrial and Mi Gente Pro, in Caguas to start exporting their products and services.

Infrastructure and Public Works

The Department Municipal Public Works, in the fiscal year 2015-2016, used 2,113.38 tons of asphalt to repairing potholes, streets, rural and urban roads of our municipality. The investment for these works was $174,353.85. For street resurfacing in this period was used 16,228.82 tons of asphalt for an investment of $1,727,487.80. The Department of Building Conservation attended approximately 17 communities' projects, 23 projects in municipal departments and 2 schools for an estimated investment of $682,000.

Through our program of textiles recovery, a program innovative that was implanted first in Caguas, this program salvaged nearly 635,000 pounds in the last fiscal year. Also, the Department of Ornate and Beautification attended 119 cases of referrals of citizen's attention, kept with the maintenance routine of cutting and pruning program impacting 4,100 tress, more than 8,000 graffiti removed. In addition, the department continued its work with the maintenance of the green areas of the city at an approximated cost of $2.3 million.

In the area of citizen mobility, we assure around $3 million of the Federal Transit Administration for repair and transformation of the "Terminal Francisco Pereira"; $375 thousand of the DTOP for the final design of a bicycle path through the PR #189 road from the Terminal to the "Universidad Del Turabo".

The construction of the extension of the Avenue Degetau from the Avenue Luis Muñoz Marin up to the PR #183, across the Rio Turabo. After an arduous effort of several years on part of the municipality of Caguas, as a promoter, collaborator and economic contributor, finally this via started its construction last year.

The department also did work for the storm sewer improvements, installation of safety barriers, and construction of sidewalks. For these projects they used 1,827.5 cubic yards of concrete, and the cost was $170,021.46. In this year, installed 482 traffic signals in many areas of the city. At this time, the department is making 318 lineal miles in highways and streets of Caguas.

Safety and Protection

Department of Security and Public Protection has also met all of the goals establish in the Strategic Plan. In the last four years, the department has maintained to achieve a low criminal occurrence. Also has part of the Strategic Plan, the department has prevented 41 homicides in the last four years.

The fiscal year of 2015-2016 also mark the beginning of the first phase of the collective agreement with the Public Housing Administration a program emphasized in the detection of shootings, Shot Spotter, to help access quickly the violent criminal's acts in the city. Caguas has said before, have a technological system that allows intervening in the specific place the shooting, as for minimizing the incident rate.

The professionalization of the municipal police is an important aspect which also works. In Caguas, the exercise of functions to protect the lives and property of people harmonizes with safeguarding the civil rights of citizens. Collaborative agreements established initially by our Municipality and the University of Turabo have strengthened the training of our municipal police. It is for this reason that today we have a better prepared police: we have three agents with master's degrees, 21 bachelor degree; 46 with associate degrees and 16 technical certificates. We continue to prepare agents and especially in our Municipal Police have committed public servants.

In the area of legal assistance, in line with the mission of the Administration of making the municipal's services more accessible for our citizens, the services had an increase of 5%, compared to last year of legal counsel services. At the same time, we provide legal access to more citizens of low and moderate income so that they could complete all the necessary legal counsel work.

The Department of Emergency Management visited and oriented the 12 municipalities in the region. It provided services to the communities for emergency rescue and assistance, stray animals' pickup, conferences of natural disasters, drills, conferences of the Community Emergency Respond Team and water distribution. In response of the situation with the mosquito Aedes Aegypti and the Zika Virus, the Department of Emergency Management mobilizes the city and municipal administration and in coordination with the rest of the corporation; structures a comity to attack the problem, minimize the impact and to prevent infection. In collaboration with the Department of Sanitation and Recycling, there were a tire pickup, emptying of pools, and an intervention in pregnant woman and orientations.

Social Development and Culture

Caguas has always been aware of the importance of new information and communication technologies. As stated in Guideline No. 6 of the Strategic Plan of New Generation, "Caguas operates under a new model of governance based on strategic planning, democratic governance, professionalism, e-government and accountability." This inclusion of the issue of e-government is a strong commitment to use technology as a tool for citizen participation and effectiveness in government processes.

Caguas has always been recognized as a technologically advanced city. This can be seen in the latest report published by the Office of the Controller, an assessment of the controls and the safety of the computerized information systems of the municipalities. In this assessment the municipality of Caguas obtained the score of 93%, this being the highest ranking among all municipalities and the only one within the range of compliance.

With the closing of the fiscal year 2015-2016, our followers grew 11% with the integration of Social Medias like Facebook and Twitter. Actually Caguas has over 20,700 followers in Facebook and 3,800 in Twitter. In the same way, the frequent visits to the CAGUAS.GOV.PR incremented a 69% having over 16,500 visits per month. This is generating an average of 70 applications of services online monthly. Also, 85% of declarations and payments of the municipal IVU in Caguas are being transmitted electronically.

The tourism is another strategy for the economic development in the region and to drive the economic activity in Caguas. That's why Caguas is always present in every event of the tourism industry, as for example, in the International Tourism Expo Puerto Rico. Thanks to this event, the business, Legends of Puerto Rico, visited Caguas to learned more about the tourism that offer and to create a tourism package of the city. Also, Royal Caribbean Cruise line and MSC Divina decided to include the "Tour of Caguas" and the tasting of The Sangria Factory in their excursions.

For the first time, Caguas, promotes itself in the global touristic platform of Trip Advisor. This generated the entry of the "Ruta Del Corazon Criollo" in the platform with the objective to promote the city and to get feedback of the same. Also, this past fiscal year the web page of visitacaguas.com had a mayor redesign and had 19,348 visits that fiscal year. Also, there is the upgrade of the webpage in the English version visitcaguas.com. The development of an internet portal specializing with a tourism theme for the city made Caguas the winner of the gold medal in the category of website with a special purpose in the International Economic Development Council.

The Department of Human Development supports the units attached to it with the purpose to provide services of excellence and quality of life to the communities of Caguas. Through its Departments of Recreation and Sports, Cultural Development, Social Development and Community Self-Management, Citizen Services, Housing, Education, and Head Start & Early Start and Office of Women program seeks healthy coexistence, creole pride and healthy lifestyles.

Head Start

early Head Start

The Head Start & Early Head Start Program provided services to 1,655 children from birth to four and eleven months of age as well as 20 pregnant mothers, including the new project Early Head Start Child Care Partnership. Among the achievements, we attended 360 (26%) children with special needs; 314 (22%) children with health problems; 360 (26%) overweight children, of which 20% managed to obtain their adequate weight. In the area of mental health, 627 (45%) children received the services of a Psychologist. These are supported by professional service contracts and practice agreements with different universities; Carlos Albizu, Ponce Health and Science University, University of Turabo and University of Puerto Rico, Humacao. In addition, we have several special projects in support of our children and their families: PRESERVA, emphasizes the Role of the Male in raising children; Single Woman, to attend the particular needs of women; GRAPE, service to families of children with special needs; and AMANECE, grandparents' project as custodians of children. We have a team of committed and qualified professionals that help our participants to achieve school success and a greater degree of social competence in life.

The Women's Office continues to be a pioneer in the design of projects that result in the well-being, security and integral health of the women of Caguas and neighboring towns. Thanks to an important contribution from the Department of Socioeconomic Development of the Department of the Family, we managed to increase the integral services for the female population of Caguas and neighboring towns with the arrival of ZONA MUJER. Under this project located on Betances Street, of the traditional urban center, more than 200 women benefited from services aimed at employability, entrepreneurship and studies, while receiving accompaniment from an employment promoter, personal counseling and support in the care of their children.

Through the services located in the Court of Caguas and in the Market Square, legal, counseling, advocacy, psychology and counseling services were provided to more than 800 women victims of domestic violence or at risk of domestic violence. These projects are subsidized by the Department of Justice and the Women's Advocate Office. For the first time, the Office extended its offer of prevention services to young men under De Hombre a Hombre Project, which promotes healthy relationships between couples and seeks to reduce the risk of violence in this population.

Our Government has adopted the initiative "Caguas Ciudad Educadora" (Caguas Educational City) as our continued commitment in providing the best educational opportunities for our children. This initiative develops and promotes strategies that foster an education that arises from the interest and needs of the children in participating schools. Three Elementary Schools in communities of high poverty are part of this initiative. Such as this Initiative, we continue to develop strategies based on our policies of a Democratic Governance.

The "Creole Neurodigital Center" is focused in providing internet access through wireless system around our nine electronic libraries. Citizens from remote areas have been able to access information for educational purposes of their children, their own personal benefit and enjoyment. The Neurodigital center offers computer literacy to community members. A highlight of our technology workshops, are the services we provide for elderly people. They have special interest in learning how to use the internet, how to manage cell phones and face book to keep in touch and communicate with their families.

The Specialized Secondary School of Science, Mathematics and Technology, (CIMATEC) has successfully completed the development of all projected grades having had three graduated high school classes. All CIMATEC graduated students have been accepted to Universities in Puerto Rico and others throughout the United States. Many of them receiving scholarships.

Students continue to succeed in academic and extracurricular competitions such as Robotics and Science and Math, being the latter their continued subject of strength. Students are recruited for summer Internships with renown Universities and their performance continues to be outstanding.

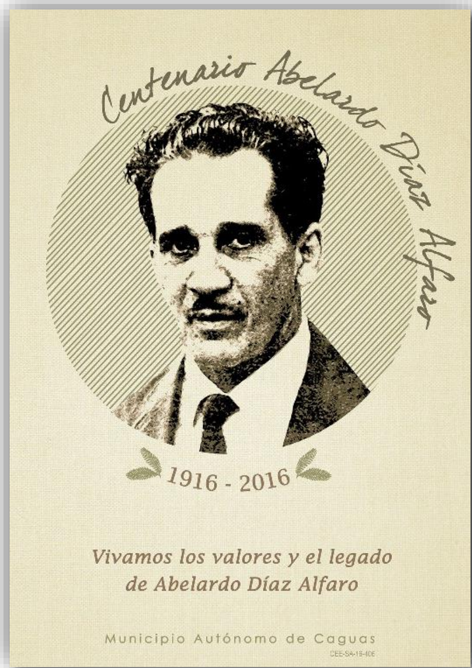
As mentioned before, "Caguas Ciudad Educadora" has identified and sustained alliances with a variety of outstanding industries, enterprises, human and other available resources from our city to support and guide our children's interests. This model believes that by targeting on strengths and interests a change in attitudes will occur. In addition, our youths will be motivated to achieve and seek success through improving their surrounding environments.

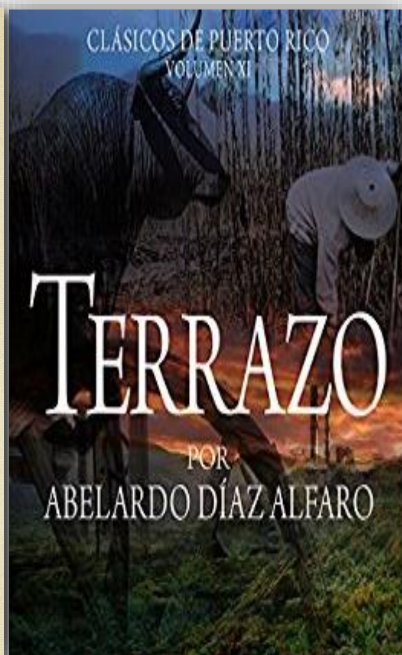
Several of the elementary schools participate in a Federal Funding Grant known as 21st Century. Three hundred elementary school students from five targeted schools participate in this project. We provide tutoring, recreation and cultural activities and many other events intended to expand and nourish their educational experiences. The participating schools are from low income, low achieving school communities.

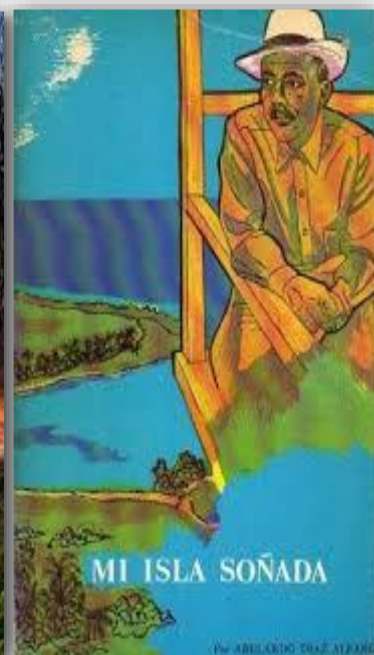
Above 80% of participating students have increased their attendance and have improved academically. In addition, many parents of these students have benefited from training and orientations related to use of technology, child development and parenting skill.

We have been granted funds for Adult Education. A total of over two hundred and thirty nine adults participated of 120 hours of Conversational English courses. Another group took Civism as preparation for the American Citizenship exam. In addition, a population of citizens whom had not completed their high school, nor have their high school diploma, were given equivalent classes to complete the level.

The Department of Education grants scholarships to High School and College Students of low income families of our City. At least two hundred and twenty students are eligible to apply for these scholarships. Each application is evaluated by a Committee that guarantees students comply with all requirements.







As part of the 100th year celebration of the great “cagüeño”, Abelardo Díaz Alfaro one of the most important short-story writer from the 20th century of Puerto Rico that develops in his stories the social and ethical values to children and some of his stories have been translated in seven different languages, Caguas threw different activities to commemorate his life and present to the new generation the culture and roots that took place in that time.

Independent Audit

Local statutes require an annual audit by independent certified public accountants. The independent auditors from CPA Diaz Martinez PSC were selected by the Municipality to perform the audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2016 in accordance with auditing standards generally accepted in the United States of America. The independent auditors' report on the financial statements is included in the financial section of this report.

The Municipality is also required to undergo an annual audit to obtain reasonable assurance about compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs. This audit was also conducted by CPA Diaz Martinez, PSC and the Single Audit Report will be published at the same date as a separate document.

Awards

The City became a hub for sustainable economic development while protecting the environment through its Public Works Department, in charge of various services, including the maintenance of local streets, flood control facilities, maintenance of common areas, solid waste collection, recycling, parks and recreational facilities maintenance and public lighting maintenance.

Cleanliness of the City is of outmost importance for the Municipality even in State roads, bridges and facilities. This municipal agency developed gardens throughout the entire City, including. Waste management continues to be a top priority in Caguas because of the City's status as the hub for business and tourism activity. Our recycling program continues to serve as a standard for other municipalities to follow.

All these embellishment and reforesting initiatives have been recognized by local, national and international organizations:

The short film "Governanza" received the "Best Social Innovation Award" at the Social Machinery Film Festival, held in Salerno, Italy.

For the 7th consecutive year, the Association of Governmental Financial Officials (GFOA) awarded our Municipality the Excellence Award in the Presentation of Budget Document 2016-17.

In 2016, the program "Arranque Empresarial Juvenil", won the gold medal granted by the International Economic Development Council in the category of cities of 25,000 to 200,000 citizens. Also, Caguas received another gold medal in the category of "the website with a special purpose" also with the International Economic Development Council.

On November 2010 our City won a Bronze medal in the United Nations Organization "International Livable Communities Award".

In the year 2009, Caguas received the “Environmental Quality Award” in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for the project “Caguas Flourecente” (fluorescent).

In the year 2009: *Tree City USA Award* given by the National Arbor Day Foundation of the city of Nebraska, Caguas was recorded as an “Arboreal City”.

In the year 2006, Caguas received the “Environmental Quality Award” in the Government category, awarded by the United States Environmental Protection Agency to the Autonomous Municipality of Caguas, for establishing a comprehensive environmental protection program in the City.

In the years 2001, 2003 and 2004, Caguas´ Public Works Department received the Caribbean Urban Forestry Award, for establishing programs of reforestation, gardening, beautification and environmental conservation.

In the years 2002, 2003 and 2004, the Puerto Rico Environmental Quality Board granted Caguas its Cleanest City Award.

The Government Finance Officers Association of the Unites States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Autonomous Municipality of Caguas for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the seventh consecutive year that the Municipality has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Municipality has to publish an easily readable and efficiently organized CAFR that satisfies both US GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We express our appreciation to the Mayor and the City Council for their continuous support. Their vision and leadership always allows us to accomplish our goals in a responsible and progressive manner.

We recognize that the preparation of this report could not have been accomplished without the assistance of the entire staff of the Finance Department. With appreciation for all members of the Finance Department who contributed to the preparation and completion of this report. Due credit is also given to our independent auditors, CPA Diaz Martinez, PSC, and our financial consultants HLB Parissi PSC, for their continuous advice and commitment.

Respectfully submitted,

AUTONOMOUS MUNICIPALITY OF CAGUAS, PUERTO RICO

Víctor M. Coriano Reyes
Secretary of Administration

Angie L. Frías Báez
Finance Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Autonomous Municipality of Caguas

Puerto Rico

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ELECTED OFFICIALS

MAYOR
William E. Miranda Torres

ELECTED MUNICIPAL COUNCELORS

PRESIDENT
José Ramón Torres Torres

Antonio Cruz Gorritz
Rafael A. Carballo Collazo
Esteban Ramírez Del Valle
Ismael González Rivera
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Sylvia Rodríguez Aponte
Juan J. Velázquez Villares

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VICE-MAYOR
Lydia I. Rivera Denizard

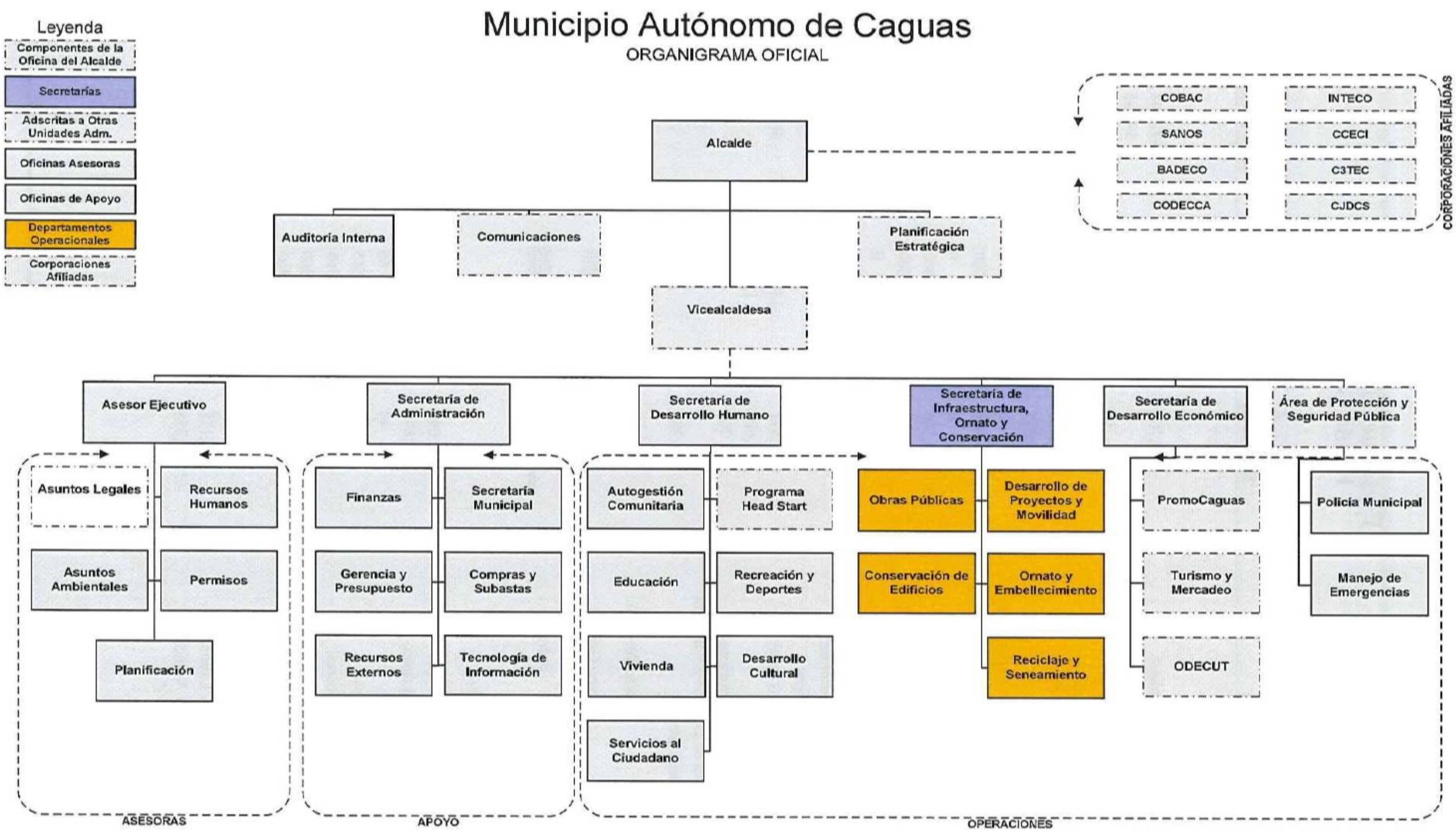
Mónica Y. Vega Conde, Esq.
Executive Advisor

Víctor M. Coriano Reyes
Secretary of Administration

Aida I. González Santiago
Secretary of Human Development

Ada Belén Caballero Miranda
Secretary of Infrastructure, Beautification, and Conservation

Zamia M. Baerga Torres
Secretary of Sustainable Economic Development


Municipio Autónomo de Caguas
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Leyenda
Componentes de la Oficina del Alcalde
Secretarías
Adscritas a Otras Unidades Adm.
Oficinas Asesoras
Oficinas de Apoyo
Departamentos Operacionales
Corporaciones Afiliadas
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Desarrollo Cultural
Servicios al Ciudadano
Obras Públicas
Desarrollo de Proyectos y Movilidad
Conservación de Edificios
Ornato y Embellecimiento
Reciclaje y Seneamiento
PromoCaguas
Turismo y Mercadeo
ODECUT
Policía Municipal
Manejo de Emergencias
ASESORAS
APOYO
OPERACIONES

Caguas
Ciudad Sostenible

Financial Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2016

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CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

ENHANCING THE QUALITY OF ACCOUNTING, AUDITING AND ATTESTATION SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Autonomous Municipality of Caguas of the
Commonwealth of Puerto Rico

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 government-wide *Statement of Net Position*, and the pension expense for the current period change in that liability in governmental activities of the government-wide *Statement of Activities*, which represents the 100 percent, 100 percent, 39 percent, and 4.1 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2016, and expense 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 on Governmental Activities and Note Disclosure Regarding Pensions Plan

In our opinion, except for the possible effects of the matter described above in the *Basis for Qualified Opinion on Governmental Activities and Note Disclosure Regarding Pensions Plan* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Municipality as of June 30, 2016 and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major funds, and the aggregate remaining fund information of the Municipality, as of June 30, 2016, and the respected changes in the financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Uncertainty about Ability to Continue as a Going Concern – Commonwealth of Puerto Rico

The Municipality is an instrumentality of the Commonwealth of Puerto Rico (Commonwealth). The accompanying financial statements of the Municipality have been prepared assuming that the Commonwealth will continue as a going concern. Also, the Municipality received substantial funds and loans from the Commonwealth. As discussed in Note 24 to the basic financial statements on pages 105-106, the Commonwealth's recurring deficits, negative financial position, further deterioration of its economic condition, and inability to access the credit markets raises substantial doubt about the ability to continue as a going concern. Management's plans regarding these matters are also described in Note 24. The financial statements of the Municipality do not include any adjustments that might result from the outcome of this uncertainty. Our opinions are not modified with respect to this matter.

Newly Adopted Standards

As discussed in Note 22 to the financial statements, the Municipality adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* during the fiscal year 2015. Our opinions is not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 21 to the financial statements, the 2015 financial statements have been restated for the implementation of GASB Statements Nos. 68 and 71. Our opinions is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 8-23, Schedule of Revenues and Expenditures Budget and Actual – General Fund information on pages 138-139, and employees' retirement systems information, on pages 140-142 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information related to management's discussion and analysis, and budgetary comparison information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. We were unable to apply certain limited procedures to the required supplementary information related to employees' retirement systems information applicable to Municipality, in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT
To the Honorable Mayor and
Member of the Municipal Legislature
Municipality of Caguas of the
Commonwealth of Puerto Rico

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2017 on our consideration of the **Municipality**'s internal control over financial reporting on 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 considered **Municipality**'s internal control over financial reporting and compliance.

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2019

Caguas, Puerto Rico
March 22, 2017

Stamp No. E267354 was affixed to
the original report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 basic financial statements.

As management of the Autonomous Municipality of Caguas (hereafter the Municipality), we offer readers of the Municipality's financial statements this narrative overview and analysis of the financial activities of the Municipality for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The net position of the Municipality shows that governmental assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the fiscal year by $36,878,572, as restated.

- The government's total assets and deferred outflows of resources, in the Governmental-wide Statement of Net Position decreased by $20,436,021 and government's liabilities and deferred inflows of resources increased by $2,855,115. These changes resulted in a decrease in total net position of $8,084,031, as restated.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $41,545,983, as restated, after a total and combined net decrease of $6,422,333.

- The Municipality's total general and special long-term debts net decreased by $16,050,414 during the current fiscal year. The Municipality did not issued debt during the current year, while during fiscal year 2015, $3,850,000 were issued. The use of funds was for infrastructure development, recreational facilities and acquisition of equipment. Refer to Capital Assets and Debt Administration Section for general information related with the use of funds provided by debt issuance.

- Prior period adjustments of ($523,473) were related to capital assets adjustments and $299,542 were adjustments to units held for sale, $390,875 related to receivables, and ($308,048) were the result of the Municipality's unfunded pension obligations by the implementation of GASB Statement No. 68 and 71.

- Net investment in Capital Assets from Governmental Activities as of June 30, 2016 was $428,998,057, as restated, presenting a decrease of $11,597,101 with respect with prior year adjusted balance. In addition, during the year, the Municipality retired from its Schedules of Capital Assets, construction units held for sale to low income families, constituents of the Municipality, and report them as Housing Units and Idle Units Held for Sale. These units previously represented $871,230 (net of depreciation) in the Schedule of Land. Also, a land that wasn't previously recognized, was adjusted in the amount of $347,757. During the year, the Municipality sold a land lot for $6,500,000 (Special Item), reporting a gain on sale of $2,750,000.

This discussion and analysis is intended to serve as an introduction to the Municipality's basic financial statements. The Municipality's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and required supplementary information (see Figure 1). The basic financial statements present two different views of the Municipality through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Municipality.

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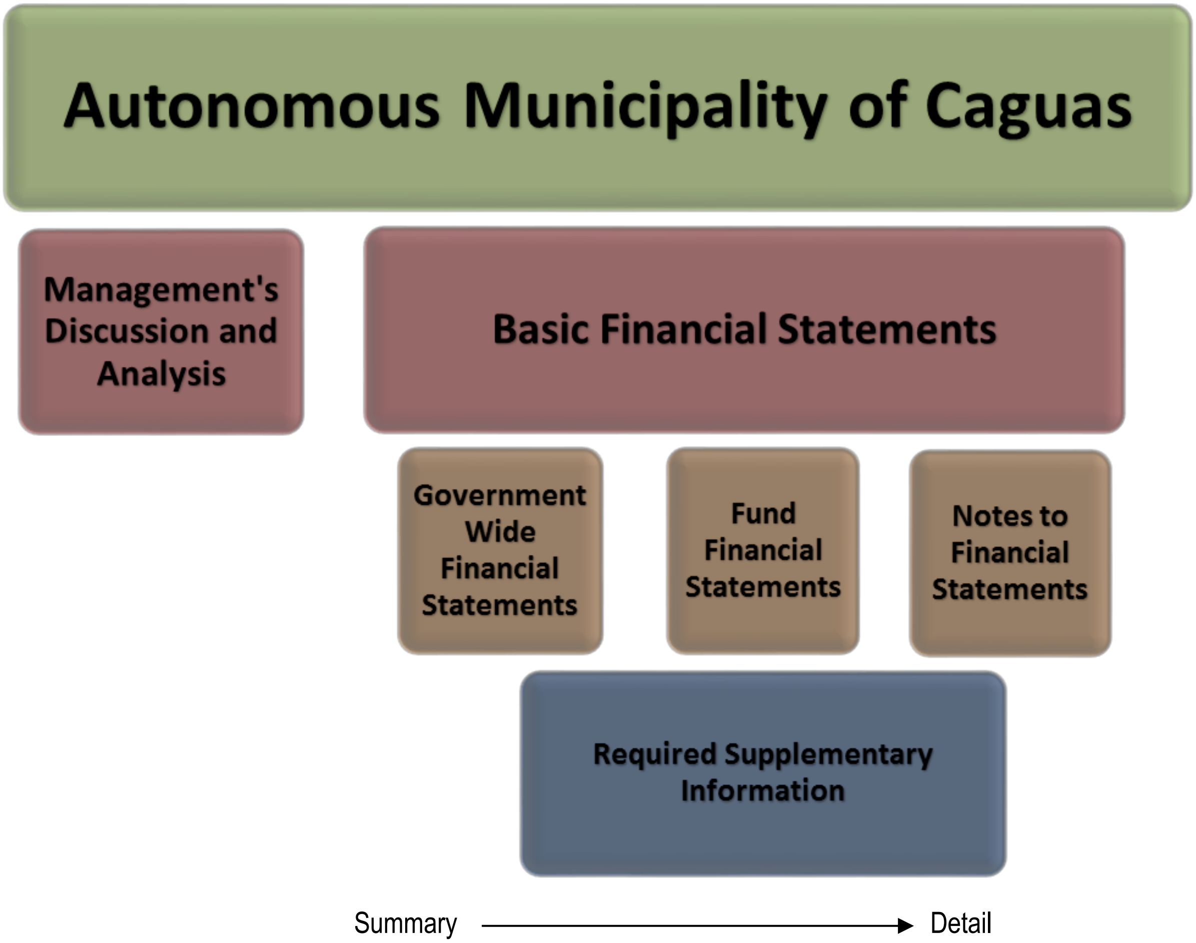
Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-Wide Financial Statements**. They provide both, short and long-term information about the Municipality's financial status.

The next statements are the **Governmental Fund Financial Statements**. These statements focus on the activities of the individual parts of the Municipality's government. These statements provide more details than the Government-wide Financial Statements.

Government-wide Financial Statements (GWFS)

The GWFS are designed to provide the reader with a broad overview of the Municipality's finances. The GWFS provide short and long-term information about the Municipality's financial status as a whole.

The *Statement of Net Position* presents information on all the Municipality's assets, plus deferred outflows of resources, less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Municipality is improving or deteriorating.

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The Statement of Activities presents information showing how the Municipality's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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, business type, and component unit, if any). This is intended to summarize and simplify the reader's analysis of the revenues and costs of the Municipality's activities and the degree to which activities are subsidized by general revenues.

The governmental activities include most of the Municipality's basic services such as public safety, culture and recreation and general administration. Property taxes, volume of business taxes and state and federal grant funds finance most of these activities.

New Significant Accounting Standards Implemented

During fiscal year 2016, the Municipality adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, Fair Value Measurement and Application

- Statement No. 73, Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provision of GASB Statements No. 67 and No. 68

- Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Statement No. 72 (Statement) address accounting and financial reporting issues related to fair value measurements. 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.

GASB No. 72 implementation, presented a loss on housing units valuation in the amount of $175,715.

Statement No. 73 (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 No. 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

Statement No. 76 (Statement) supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

The government-wide financial statements are included from pages 26 through 28 of this report.

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Governmental Fund Financial Statements (GFFS)

The GFFS provide a more detailed look at the Municipality's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Municipality, like all other governmental entities in the Commonwealth of Puerto Rico, uses fund accounting to ensure and reflect compliance (or non compliance) with finance related legal requirements, such as the General Statutes or the Municipality's budget ordinance.

Governmental funds are used to account for those functions reported as governmental activities in the GWFS. Most of the Municipality's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash inflows and outflows, and what monies are left at year end that will be available for spending in the next fiscal year.

Governmental funds are reported using an accounting method called modified accrual basis of accounting. This method is also known as current financial resources focus. Thus, the GFFS give the readers a detailed short term view that helps them determine if there are more or less financial resources available to finance the Municipality's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in reconciliations that are part of the GFFS.

The Municipality adopts an annual budget for its General Fund, as required by the General Statutes. The Municipality's annual budget is a legally adopted document that incorporates input from the citizens of the Municipality, the management of the Municipality, and the decisions of the Municipal Legislature about which services to provide and how to pay for them. It also authorizes the Municipality to obtain funds from identified sources to finance these current period activities. The budgetary schedule provided for the General Fund demonstrates how well the Municipality complied with the budget ordinance and whether the Municipality succeeded in providing the services as planned when the budget was adopted. The budgetary comparison schedule uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Municipal Legislature; 2) the final budget as amended by the Municipal Legislature; 3) the actual resources, charges to appropriations, and the final relationship between revenues and appropriations; and 4) the difference or variance between the final budget and the actual resources and charges.

The governmental funds financial statements are included from pages 29 through 33 of this report.

Notes to Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes can be found on pages 34 through 135 of this report.

Required Supplementary Information – Budgetary Information – Provides additional information to better understand the financial position of the Municipality and contains the Schedule of Revenues and Expenditures Budget and Actual – General Fund, are presented immediately following the notes to the financial statements and can be found on pages 121-122 of this report.

Required Supplementary Information – The required supplementary information reported are related to the GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented on pages 140 through 142 of this report.

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FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

Government-wide Financial Analysis

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The total assets and deferred outflows of the Municipality exceeded its liabilities and deferred inflows by $36,878,572 as of June 30, 2016. The Municipality's net position decreased by $8,084,031, as restated, for the fiscal year ended June 30, 2016.

One of the largest portions of the net position, $275,432,752, reflects the Municipality's investment in capital assets (e.g. land, buildings, infrastructure, and equipment); less any related debt still outstanding that was issued to acquire or contract those assets. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Municipality's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Municipality's net position $35,585,406 represents resources that are subject to external restrictions on how they may be used. Within this portion are the $2,237,174 held by the Municipality in Investment Accounts within the Governmental Development Bank of Puerto Rico which is currently under the effects of the executive order signed on April 8, 2016, declaring the GDB to be in a state of emergency ordering the suspension of loan disbursements by GDB, imposing restrictions on the withdrawal and transfer of deposits from GDB, and imposing moratorium on debt obligations of GDB, among other measures. These funds are therefore not currently available, although collectible in a future period.

An Unrestricted Net Position (Deficit) of ($274,139,586) was presented as of June 30, 2016. This balance was negatively affected primarily to by the recognition of Net Pension Liability, as required by GASB Statements No. 68 and 71, for the amount ($218,790,440). Other long-term debts, such as compensated absences ($12,556,198), and Municipal Revenue Collection Center Liquidations ($1,929,930), also affected the net position.

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The Municipality's Net Position (as restated)
Figure 2

	Governmental Activities			
	2016	2015	Dollar Change	Percentage Change
Current and Other Assets (as Restated)	$ 91,121,017	$ 99,280,919	$ (8,159,902)	-8.22%
Capital Assets (as Restated)	428,998,057	440,595,158	(11,597,101)	-2.63%
Housing Units Held for Sale	535,848	1,288,215	(752,367)	100.00%
Idle Units Held for Future Use	102,567	102,567	-	100.00%
Loan Receivable, Net	510,871	444,014	66,857	100.00%
Note Receivable, Net	114,700	108,208	6,492	6.00%
Total Assets	521,383,060	541,819,081	(20,436,021)	295.15%
Deferred Outflows of Resources	26,633,916	11,426,811	15,207,105	133.08%
Current Liabilities (as Restated)	50,872,304	51,938,440	(1,066,136)	-2.05%
Other Liabilities	458,681,432	454,760,181	3,921,251	0.86%
Total Liabilities	509,553,736	506,698,621	2,855,115	-1.19%
Deferred Inflows of Resources	1,584,668	1,584,668	-	0.00%
Net Position:				
Net Invested of Capital Assets (as Restated)	275,432,752	266,744,576	8,688,176	3.26%
Restricted (as Restated)	35,585,406	43,222,730	(7,637,324)	-17.67%
Unrestricted (Deficit) (as Restated)	(274,139,586)	(265,004,703)	(9,134,883)	3.45%
Total Net Position	$ 36,878,572	$ 44,962,603	$ (8,084,031)	-10.97%

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The Municipality's Changes in Net Position (as restated)
Figure 3

	Governmental Activities			
	2016	**2015**	**Dollar Change**	**Percentage Change**
Revenues:				
Program Revenues:				
Charges for Services	$ 1,237,433	$ 1,175,432	$ 62,001	5.27%
Operating Grants and Contributions	29,271,828	29,465,623	(193,795)	-0.66%
Capital Grants and Contributions	1,047,754	2,181,931	(1,134,177)	-51.98%
General Revenues:				
Property Taxes	57,424,592	50,700,722	6,723,870	13.26%
Volume of Business Taxes	23,191,310	23,624,260	(432,950)	-1.83%
Sales and Usage Taxes	21,077,117	20,916,340	160,777	0.77%
Intergovernmental	10,058,290	13,648,070	(3,589,780)	-26.30%
Construction Excise Taxes	3,911,557	4,947,664	(1,036,107)	-20.94%
Interest and Investment Income	428,359	756,516	(328,157)	-43.38%
Other	5,133,706	2,260,199	2,873,507	127.14%
Total Revenues	152,781,946	149,676,757	3,105,189	2.07%
Expenses:				
General Government	34,835,322	40,651,105	(5,815,783)	-14.31%
Public Safety	12,636,567	11,954,408	682,159	5.71%
Public Works	23,866,136	23,525,790	340,346	1.45%
Cultural and Recreation	10,791,132	10,374,870	416,262	4.01%
Health and Welfare	12,330,653	12,543,232	(212,579)	-1.69%
Economic and Social Development	8,272,443	9,328,833	(1,056,390)	-11.32%
Housing	10,572,877	10,545,647	27,230	0.26%
Sanitation and Environmental	17,191,880	16,387,879	804,001	4.91%
Education	20,321,130	20,033,373	287,757	1.44%
Interest	10,323,912	10,802,643	(478,731)	-4.43%
Total Expenses	161,142,052	166,147,780	(5,005,728)	-3.01%
Excess (deficiency) before special items:	(8,360,106)	(16,471,023)	8,110,917	-49.24%
Special Item:				
Donated Capital Assets	276,075	-	276,075	100.00%
Net Change in Net Position	(8,084,031)	(16,471,023)	8,386,992	-50.92%
Net Position, Beginning of Year, as Restated	44,962,603	61,433,626	(16,471,023)	-26.81%
Net Position, Ending	$ 36,878,572	$ 44,962,603	$ (8,084,031)	-17.98%

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Governmental Activities – Governmental activities decreased the Municipality's net position by $8,084,031. Key elements of this change in net position are the following:

Revenues:

- Total overall revenues increased by 2.07% over prior year. The following categories had the mayor changes from prior year:

- Capital grants and contributions decreased 51.98% over prior year – due to a reduction from state and federal resources received through state assignments and federal reimbursements.

- Construction Excise Taxes decreased by 20.94% – during fiscal year 2015, the Municipality had contracted external resources with the purpose of reviewing its contributors' financial statements and identifying deficiencies in the contributions received as construction excise taxes. Therefore, it was expected a decrease in this concept.

- Intergovernmental Revenues decreased by 26.30% - mostly as a result of a reduction in the consumption of electricity that is part of the agreement of contributions in lieu of taxes with Puerto Rico Electric Power Authority (PREPA).

- Interest and Investment Income decreased by 43.38% - during the fiscal year, the Municipality closed some certificates of deposits that generated more interest income than deposits in commercial banks.

- An increase of approximately $6,700,000 in Property Taxes, was due to deposits from "Amnistías" granted by the Municipal Revenue Collection Center (MRCC).

- Gain on Sale of Capital Assets by the amount of $2,750,000, corresponds to the sale of a land lot for $6,500,000, with a cost of $3,750,000 in books. In addition, the Municipality received donated capital assets in the amount of $276,075. From this amount $124,950 was truck for waste disposal, and the amount of $151,125 were donations of land lots, which will be used by the Municipality for the construction of a park.

Expenses:

Total overall expenses had a net decrease of 3.01% over prior year. This decrease was mainly due to the decrease in the consumption of electricity that is part of the agreement of contributions in lieu of taxes with PREPA, in amount of $3,381,000 approximately, recognized in general government function. In addition, a decrease in the economic and social development was presented mainly to a reduction of compensated absences reflected in that function of approximately $779,000.

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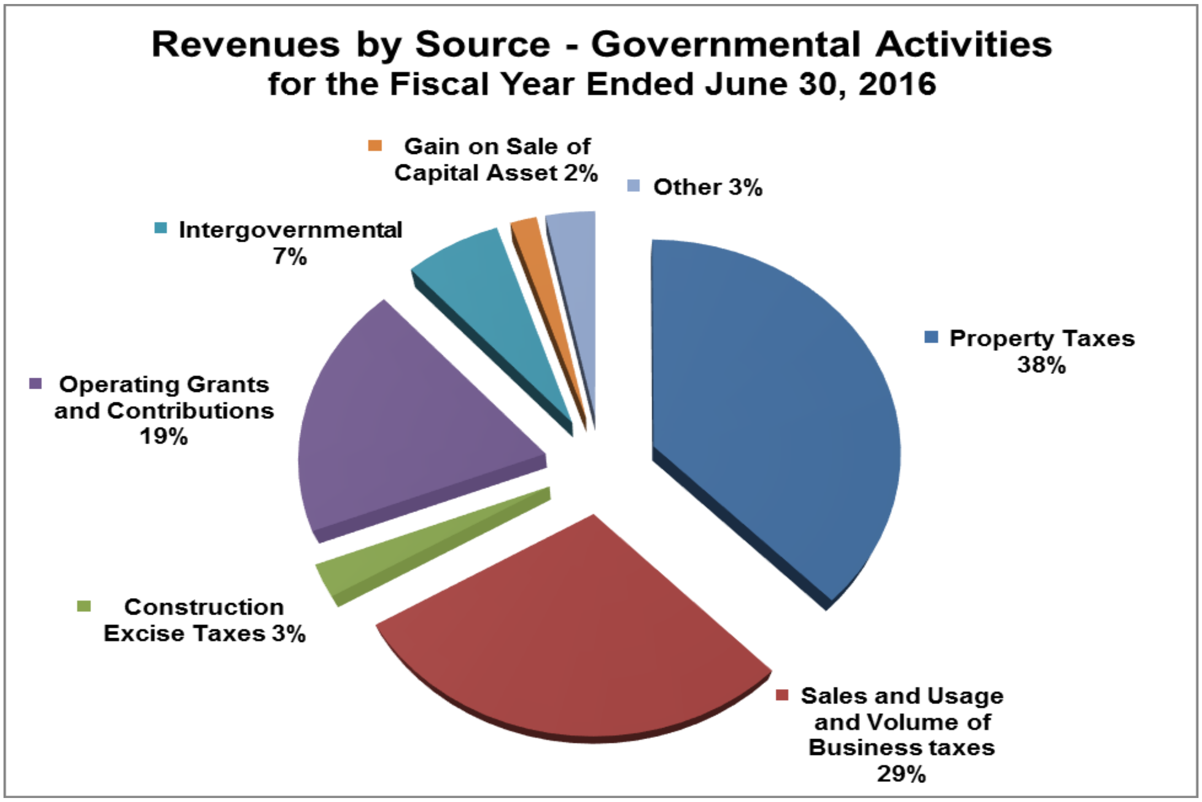
Figure 4



Financial Analysis of the Municipality's Funds

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

Governmental Funds – The focus of The Municipality's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Municipality's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2016, the governmental funds of the Municipality reported a combined fund balance of $41,545,983, as restated. This amount represents a decrease of $6,422,333 or 13.4% over last year. Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues decreased by $6.7 million, and the expenditures decreased by approximately $3.6 million, in comparison from prior year, of which approximately $3.4 were related to the contribution in lieu of taxes from PREPA, which affects revenues and expenditures. No debts were issued during the year. The Sale of Capital Assets provided $6,500,000 to the general fund, which had no restriction for its use.

Capital Project Fund – Revenues from capital project fund decreased by $390 thousands, mainly due to a reduction in federal grants available during the year. Expenditures for this fund also decreased, showing a reduction of $1.9 million. This reduction was mainly caused by a decrease in the expenditures related to capital outlays of $1.3 million.

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Debt Service Fund – Revenue from debt service fund increased by $6 million, mainly as a result of prior year collections of the property tax amnesty act of 2014. In the other hand, the fund's expenditures decreased by $1.9 million caused by a decrease in the debt service principal payments. The increased revenues for the year and the reduction in expenditures caused a net change of $6.6 million.

Health and Human Services Fund – Revenues and expenditures from the HHS fund increased by $426 thousand. The fund had a net change of expenditures over revenues of $66,895, for net change of expenditures over revenues of $39,383.

Other Governmental Funds – Revenues increased by $764 thousand, mainly due to an increase in state assignments approved for the Municipality from the Commonwealth. The expenditures also decreased by $256 thousand. In addition, the proceed from the sale of units held for sale was accounted as special items in the amount of $236 thousand, resulting on a negative net change of $570 thousand.

General Fund Budgetary Highlights: During the fiscal year 2016, the Municipality's budget was changed, according to the latest results and ordinances and resolutions approved by the Mayor and the Municipal Legislature. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants and from appropriation from prior year fund balance; and 3) increases in appropriations as a result of cash surplus from prior period to supplement capital projects funding and general government activities.

The following were most significant budgetary transactions:

- The original General Fund appropriation for fiscal year 2016 was $105,464,637 which is less than the prior year appropriations by $102,191 and which was later increased by $2,944,297.

- Actual budgetary transactions generated an excess of appropriations over resources of $4,193,270 due to the following:

  - Actual revenues were less than budgeted amounts by $8,975,713. This result was, mainly, as a combination of a decrease in construction excise taxes $5,841,441, and a decrease in intergovernmental revenues related to the contribution in lieu of tax from PREPA for $3,381,590.

  - Actual appropriations resulted in an economy of $5,504,473. All functions presented economies, especially general government, which presented $3,706,554 in economies, mainly due to the contribution in lieu of tax from PREPA for $3,381,590.

continue

Figure 5

	Original	Increases	Final
Resources:			
Property Taxes	$ 32,732,859	$ -	$ 32,732,859
Volume of Business Taxes	24,510,000	-	24,510,000
Sales and Usage Taxes	17,586,000	-	17,586,000
Construction Excise Taxes	9,524,000	-	9,524,000
Intergovernmental Revenues	13,766,573	-	13,766,573
Interest	800,000	-	800,000
Rent and Other Resources	5,251,205	2,944,297	8,195,502
Fines and Penalties	1,294,000	-	1,294,000
Amounts available for appropriation	105,464,637	2,944,297	108,408,934
Expenditures charged to appropriations:			
General Government	41,712,309	3,688,668	45,400,977
Public Safety	8,800,612	(618,896)	8,181,716
Public Works	16,195,341	299,440	16,494,781
Culture and Recreation	5,469,121	133,831	5,602,952
Health and Welfare	7,189,761	-	7,189,761
Economic and Social Development	9,698,874	(116,769)	9,582,105
Housing	881,700	(113,332)	768,368
Sanitation and Environmental	12,549,301	(303,992)	12,245,309
Education	2,967,618	(24,653)	2,942,965
Total charges to appropriations	105,464,637	2,944,297	108,408,934
Excess of resources over appropriations	$ -	$ -	$ -

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Capital Asset and Debt Administration

Capital Assets – The Municipality's capital assets for its governmental activities as of June 30, 2016, total $428,998,057 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park and recreations facilities, and vehicles. The depreciation expense for the fiscal year was $15,623,981, and additions to infrastructure and other capital assets were $7,921,461. Retirements of capital assets during year were mainly vehicles and electronics for the amount of $1,507,030. Also, the Municipality sold a land in the amount of $3,750,000, and purchased a land lot for $985,000 for the construction of "Recreo Deportivo del Sureste". An adjustment in land decreasing the balance for $871,230, was made to reclassify and adjustment to land held for sale to low income families, constituents of the Municipality. In addition, land was adjusted to recognize the amount of $347,757 of land not previously recognized.

The Municipality's Capital Assets (as restated)
(Net of Depreciation)
Figure 6

	Total			
	2016	2015 As restated	Dollar Change	Percentage Change
Capital assets not being depreciated				
Land and improvements	$ 92,902,128	$ 95,001,648	$ (2,099,520)	-2.21%
Construction in progress	7,362,180	6,008,652	1,353,528	22.53%
Works of art and historical treasures	2,261,726	2,261,726	-	0.00%
Total not being depreciated	102,526,034	103,272,026	(745,992)	20.32%
Capital assets net of depreciation				
Facilities and improvements	56,606,137	58,936,458	(2,330,321)	-3.95%
Buildings and improvements	68,544,534	71,049,710	(2,505,176)	-3.53%
Infrastructure	191,926,495	197,616,586	(5,690,091)	-2.88%
Equipment and vehicles	9,394,857	9,720,378	(325,521)	-3.35%
Total net of depreciation	326,472,023	337,323,132	(10,851,109)	-3.22%
Total capital assets net of depreciation	$ 428,998,057	$ 440,595,158	$ (11,597,101)	23.53%

Additional information on the Municipality's capital assets can be found on Note 11 of the Basic Financial Statements on page 73.

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2016 are as follows:

Project	Amount
Construction of "Recreo Deportivo del Sureste"	$ 1,222,980
Water and Sewer improvement in "Tomas de Castro"	435,256
Construction "Hacienda Ramonita y Los Cubanos"	176,653
	$ 1,834,889

continue

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, most 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 Notes 13 and 17 to the financial statements on pages 74 and 81, respectively of this report.

Long-Term Debts – As of June 30, 2016, the Municipality had total bonded debt outstanding of $244,246,108 all of which is debt backed by the full faith and credit of the Municipality.

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The Municipality's Outstanding Debts (as restated)
Long-Term Debts
Figure 7

	Governmental Activities		Dollar	Percentage
	2016	2015	Change	Change
General Obligations Bonds	$ 169,226,108	$ 179,959,522	$ (10,733,414)	-5.96%
Special Obligations Bonds	72,620,000	77,937,000	(5,317,000)	-6.82%
Federal Loans	2,400,000	3,000,000	(600,000)	-20.00%
Net Pension Liability	218,790,440	198,023,675	20,766,765	10.49%
Law No. 142-MRCC	1,417,093	1,465,429	(48,336)	-3.30%
PR Retirement System Administration	-	801,428	(801,428)	100%
Claims and Judgments	611,853	704,534	(92,681)	-13.15%
MRCC-Property Taxes Liquidation	1,929,930	2,065,296	(135,366)	-6.55%
Christmas Bonus	1,115,632	1,084,932	30,700	2.83%
Retainage Liability	42,486	292,498	(250,012)	100%
Compensated Absences	12,556,198	12,382,877	173,321	1.40%
Total	$ 480,709,740	$ 477,717,191	$ 2,992,549	158.92%

The Municipality's debt related to General, Special and Federal obligations decreased by $16,650,414 (-32.79 %) during the fiscal year 2016. Redemption of debts were recognized during the year related to property taxes liquidations with the MRCC ($135,366), payments to retirement system ($801,428), and retainage related to construction in progress projects ($250,012). A significant increase in long term debts, is due to the Net Pension Liability.

Additional information on the Municipality's long-term debts can be found on Note 15 of the Basic Financial Statements on pages 75 through 80.

The Commonwealth of Puerto Rico limits the amount of general obligation debt that a municipal government can issue to 10 percent of the total assessed value of taxable property located within the municipality's jurisdiction. On March 2009, the Government of Puerto Rico enacted the Special Act, Declaring a State of Fiscal Emergency and Establishing an Integrated Fiscal Stabilizing Plan to Save the Credit of Puerto Rico (Public Law 7). Among other things, this Law introduced a new way to view the Real Property valuation (see Note 25 on page 120 of the accompanying financial statements).

Also, the Municipality has a sales tax redemption fund, composed of .2% of the .5% of the municipal sales tax rate portion of 1.5%, to support the debt service fund capacity. This fund, in addition to other variables, is used to calculate the Municipality's borrowing capacity, along with the property tax redemption fund, within a specific timeframe. On February 1, 2014 was enacted Act Nos. 18 and 19 that change the composition of the sales and usage taxes (see Note 3).

continue

Summary of Local Economy

The Municipality of Caguas was founded in 1775. Caguas has the fifth largest population of Puerto Rico with boundaries that encompass an area of approximately 59.07 square miles, and according to the 2010 Puerto Rico Community Survey the population of Caguas was 142,893. It was estimated by the US Census that the population of Puerto Rico had an overall decrease of over 19,000 citizens during the last 15 months ended on July 2012. Notwithstanding, it was also estimated that from the larges municipalities, Caguas had the lowest decrease of 1.7%. The Municipality's jurisdiction is bounded on the North by the Municipalities of San Juan and Trujillo Alto, on the South by the Municipalities of Cayey and San Lorenzo, on the East, by the Municipalities of Gurabo and San Lorenzo, and on the West by the Municipalities of Aguas Buenas and Cidra.

The largest employers in Caguas are the State and the Municipal governments, Avon Enterprises, Wal-Mart, Sam's Club and Amigo Supermarket retail chains, Kmart Corp., Costco, AT&T, Walgreens, Home Depot, and Mylan Pharmaceuticals.

The Municipality's economy has an industry composition somewhat like the rest of the island's largest Municipalities. In the 1960's textile manufacturing and agriculture made up the largest amount of the local economy, but by the mid-seventies the manufacturing share of employment had declined to a lower percentage.

Major Industries and Services (including Government)

Government Services: The governmental service is the largest source of employment in the Municipality, accounting for the largest quantity of employment. The Municipal government sector remains stable in relation to the past year. Government sector includes a diversity of employment areas such as education, electric power service, water supply, police, public works, culture and recreation, health, legal service, and others.

Health Services: As a major regional medical center, the medical services industry is one of the largest employers in the area. It includes the privately owned hospitals, HIMA-San Pablo and Hospital Menonita, formerly San Juan Bautista. These facilities provide primary, secondary and tertiary health services to the residents of Caguas and adjacent small towns, and are responsible for establishing and developing strategies and programs designed to promote health, prevent diseases and early detection and diagnosis of health problems. They promote adequate health treatment and rehabilitation services as well.

Caguas is included in the Commonwealth's Health Reform program. The Commonwealth's Health Reform program consists of comprehensive health insurance coverage for qualifying low-income residents of Puerto Rico through a managed care system. Under the Health Reform program, the Government of Puerto Rico selects, through a bidding system, one private health insurance company in each of several designated regions of Puerto Rico and pays such insurance company the insurance premiums for each eligible beneficiary within such region. The Municipality pays $7.8 million to the Puerto Rico's Health Administration, as required by law, to cover part of the insurance premium paid by the Government of Puerto Rico for its citizens. Caguas participates in this program not only as a health provider, through its facilities, but also as an Independent Provider Association (IPA) sharing with insurers the health insurance risk.

Education: The Interamerican University of Puerto Rico (IU) established a new facility in Caguas that started its operations in January 2013. Other technical-university colleges eagerly compete to attract more students to their classrooms. The tendency of students coming to Caguas represents a new governmental challenges and socio-economic opportunities.

continue

Trade (Retail and Wholesale): The trade sector is the strongest growing sector in the area. Many major national chains such as Wal-Mart, Costco, Walgreen's, Home Depot, and Office Depot have expanded into the area, helping maintain relatively stable levels of consumer spending.

Going Concern – Commonwealth of Puerto Rico

As explained on Note 24 to the basic financial statements on pages 119-120 of this report, the Commonwealth of Puerto Rico (Commonwealth) currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base, has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like subsidies to municipalities, which are instrumentalities of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Commonwealth's ability to continue as a going concern.

Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)

Also, attention was directed to Note 25 to the basic financial statements on pages 120-132 of this report, related to the Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations. As part of the requirement imposed by this bill, the Commonwealth must reduce the deficit by increase revenues and reduce substantially expenses, including subsidies to the municipalities of Puerto Rico.

As part of the Fiscal Plan presented by the Governor of Puerto Rico to attend the fiscal crisis, a proposal contemplates a reduction of $350 million of subsidies to the municipalities of Puerto Rico. Also, new increase in rates of property tax is contemplated to substitute the reduction in subsidies. The Fiscal Plan was submitted on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017. The final impact in the Municipality of decision of the Oversight Board is unknown.

Economic and Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: The consolidated budget for fiscal year 2016-2017 will be $102 million, representing a decrease of $2.8 million when compared with fiscal year ended June 30, 2016. Property taxes (benefiting from residential and industrial developments), city tax, and revenues from permits and fees are expected to remain the same as prior year projections (without considering any inter-fund transfer).

Requests for Information

This report is designed to provide an overview of the Municipality's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

BASIC FINANCIAL STATEMENTS

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		GOVERNMENTAL ACTIVITIES
ASSETS:		
Current Assets:		
Cash and Investments	$	32,349,226
Cash with Fiscal Agent		42,399,487
Receivables (Net):		
Sales and Usage Taxes		1,442,345
Volume of Business Taxes		67,833
Due from Government Units		2,318,477
Federal Grants		12,237,468
Other		306,181
Total Current Assets		91,121,017
Non-Current Assets:		
Loans Receivables, Net		510,871
Notes Receivable, Net		114,700
Land, Improvement and Construction in Progress		102,526,034
Other Capital Assets [Net of Accumulated Depreciation]		326,472,023
Housing Units Held for Sale		535,848
Idle Units Held for Future Use		102,567
Total Non-Current Assets		430,262,043
TOTAL ASSETS		**521,383,060**
DEFERRED OUTFLOWS OF RESOURCES:		
Contributions to Employees Retirement System		26,633,916
TOTAL OUTFLOWS OF RESOURCES		**26,633,916**
LIABILITIES:		
Current Liabilities:		
Accounts Payable		7,971,871
Accrued Expense		1,115,632
Accrued Interest		3,599,022
Bonds Payable		15,253,261
Advance Deposits		1,106,796
Unearned Revenues - Volume of Business Taxes		16,166,307
Accrued Compensated Absences		4,091,309
Legal Claims		280,500
Due to Governmental Entities		1,287,606
Total Current Liabilities		50,872,304
Non-Current Liabilities:		
Bonds Payable		228,992,847
Accrued Compensated Absences		8,464,889
Legal Claims		331,353
Due to Governmental Entities		2,059,417
Retainage Payable		42,486
Net Pension Liability		218,790,440
Total Non-Current Liabilities		458,681,432
TOTAL LIABILITIES		**509,553,736**

continued

	GOVERNMENTAL ACTIVITIES
DEFERRED INFLOWS OF RESOURCES:	
Unamortized Investment in Employees Retirement System	1,584,668
TOTAL INFLOWS OF RESOURCES	**1,584,668**
NET POSITION:	
Net Investment in Capital Assets	275,432,752
Restricted for:	
Capital Projects	3,576,861
Debt Service	18,679,955
Head Start Program	8,383,750
Other Purposes	4,944,840
Unrestricted (Deficit)	(274,139,586)
TOTAL NET POSITION	**$ 36,878,572**

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

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues
Governmental Activities:					
General Government	$ 34,835,322	$ -	$ 128,615	$ -	$ (34,706,707)
Public Safety	12,636,567	457,126	1,954	607,746	(11,569,741)
Public Works	23,866,136	-	-	440,008	(23,426,128)
Culture and Recreation	10,791,132	25,300	-	-	(10,765,832)
Health and Welfare	12,330,653	-	1,110,981	-	(11,219,672)
Economic and Social Development	8,272,443	673,877	2,866,406	-	(4,732,160)
Housing	10,572,877	-	8,617,421	-	(1,955,456)
Sanitation and Environmental	17,191,880	81,130	103,185	-	(17,007,565)
Education	20,321,130	-	16,443,266	-	(3,877,864)
Unallocated Interest	10,323,912	-	-	-	(10,323,912)
Total Governmental Activities	**$ 161,142,052**	**$ 1,237,433**	**$ 29,271,828**	**$ 1,047,754**	**(129,585,037)**
General Revenues:					
Taxes:					
Property Taxes, levied for General Purposes					33,527,320
Property Taxes, levied for Debt Service					23,897,272
Volume of Business Taxes					23,191,310
Sales and Usage Taxes					21,077,117
Construction Excise Taxes					3,911,557
Intergovernmental					10,058,290
Interest					428,359
Other General Revenues					2,383,706
Gain on Sale of Capital Assets					2,750,000
Total General Revenues					121,224,931
Special Items:					
Donated Capital Assets					276,075
Total General Revenues and Special Revenues					121,501,006
CHANGES IN NET POSITION					**(8,084,031)**
Net Position – Beginning of Year, As Restated					44,962,603
NET POSITION – ENDING OF YEAR					**$ 36,878,572**

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

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash and Cash Equivalents	$ 22,493,311	$ 5,657,325	$ -	$ 1,138,307	$ 3,060,283	$ 32,349,226
Cash with Fiscal Agent	2,237,174	8,783,919	30,894,803	-	483,591	42,399,487
Receivables:						
Sales and Usage Taxes	1,442,345	-	-	-	-	1,442,345
Volume of Business Taxes	67,833	-	-	-	-	67,833
Due from Governmental Units	772,280	-	1,409,435	-	136,762	2,318,477
Federal Grants	-	1,773,707	-	9,218,849	1,244,912	12,237,468
Due from Other Funds	8,640,827	-	-	-	-	8,640,827
Loans Receivable	-	-	-	-	510,871	510,871
Other	306,119	-	-	-	62	306,181
Total Assets	**$ 35,959,889**	**$ 16,214,951**	**$ 32,304,238**	**$ 10,357,156**	**$ 5,436,481**	**$ 100,272,715**
LIABILITIES:						
Account Payable	$ 6,490,487	$ 468,575	$ -	$ 235,184	$ 252,625	$ 7,446,871
Bond Payable	-	-	10,025,261	-	-	10,025,261
Interest on Bonds Payable	-	-	3,599,022	-	-	3,599,022
Due to Other Funds	-	4,058,897	-	1,738,222	2,843,708	8,640,827
Advance Deposits	1,105,796	-	-	-	1,000	1,106,796
Unearned Revenues – Volume of Business Taxes	16,166,307	-	-	-	-	16,166,307
Total Liabilities	**23,762,590**	**4,527,472**	**13,624,283**	**1,973,406**	**3,097,333**	**46,985,084**
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues:						
Commonwealth of Puerto Rico	444,750	-	601,694	-	-	1,046,444
Federal Grants	-	1,348,294	-	8,423,133	923,777	10,695,204
Total Deferred Inflows of Resources	**444,750**	**1,348,294**	**601,694**	**8,423,133**	**923,777**	**11,741,648**
FUND BALANCES:						
Restricted	2,746,186	9,884,592	18,078,261	30,012	3,218,873	33,957,924
Committed	5,862,368	-	-	-	140,485	6,002,853
Assigned	2,650,689	454,593	-	-	-	3,105,282
Unassigned (Deficit)	493,306	-	-	(69,395)	(1,943,987)	(1,520,076)
Total Fund Balances	**11,752,549**	**10,339,185**	**18,078,261**	**(39,383)**	**1,415,371**	**41,545,983**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 35,959,889**	**$ 16,214,951**	**$ 32,304,238**	**$ 10,357,156**	**$ 5,436,481**	**$ 100,272,715**

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

Total Fund Balances – Government Funds (Page 29)		**$ 41,545,983**
Amount reported for Governmental Activities in the Statement of Net Position (Page 27) 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	$ 102,526,034	
Depreciable Capital Assets	694,776,214	
Accumulated Depreciation	(368,304,191)	
Total Capital Assets		428,998,057
Other assets held for sell of idle property held for future use are not financial resources and therefore, are not reported in the funds. In the current period, these amounts are:		
Housing Units Held for Sale	535,848	
Idle Units Held for Future Use	102,567	
Total Other Assets		638,415
Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period.		26,633,916
Notes Receivables from sale of capital assets in Governmental Activities are not recorded in the funds in the current period.		114,700
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:		
Federal Grants	10,695,204	
MRCC- Property Taxes	601,694	
Christmas Bonus	444,750	
Total Unavailable Revenues		11,741,648
Deferred Inflows of Resources in Governmental Activities corresponded to future period and therefore are not reported in the funds.		(1,584,668)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General and Special Obligation Bonds	(234,220,847)	
Net Pension Liability	(218,790,440)	
Compensated Absences	(12,556,198)	
MRCC- Property Taxes Liquidation	(1,929,930)	
Claims and Judgments	(611,853)	
Christmas Bonus	(1,115,632)	
Retainage Payable	(42,486)	
Other Accounts Payable	(525,000)	
Law No. 42	(1,417,093)	
Total Long-Term Liabilities		(471,209,479)
Total Net Position of Governmental Activities (Page 27)		**$ 36,878,572**

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

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	$ 33,527,320	$ -	$ 23,295,578	$ -	$ -	$ 56,822,898
Volume of Business Taxes	23,191,310	-	-	-	-	23,191,310
Sales and Usage Taxes	17,610,532	-	3,466,585	-	-	21,077,117
Construction Excise Taxes	3,911,557	-	-	-	-	3,911,557
Federal Grants	607,746	1,574,139	-	13,606,921	11,561,457	27,350,263
Fines and Penalties	457,126	-	-	-	-	457,126
Intergovernmental	11,436,892	415,000	-	-	916,533	12,768,425
Interest	384,088	18,692	2,785	123	16,179	421,867
Rent and Other Services	698,677	-	-	-	73,107	771,784
Solid Waste Disposal	81,130	-	-	-	-	81,130
Other General Revenues	1,756,685	310	-	-	526,155	2,283,150
Total Revenues	**93,663,063**	**2,008,141**	**26,764,948**	**13,607,044**	**13,093,431**	**149,136,627**
EXPENDITURES:						
Current:						
General Government	35,921,402	4,275	-	5,740	151,527	36,082,944
Public Safety	10,213,454	-	-	-	176,947	10,390,401
Public Works	12,533,478	1,352,587	-	-	784,684	14,670,749
Culture and Recreation	5,903,384	1,100	-	-	21,387	5,925,871
Health and Welfare	11,040,353	137,294	-	384,459	329,687	11,891,793
Education	3,388,148	83,879	-	12,836,371	1,966,956	18,275,354
Sanitation and Environmental	15,826,562	317,165	-	-	-	16,143,727
Economic and Social Development	6,328,317	537,359	-	81,748	286,668	7,234,092
Housing	714,645	115,372	-	-	9,052,877	9,882,894
Capital Outlay	2,937,813	3,176,303	-	365,621	598,163	7,077,900
Debt Service:						
Principal	48,336	600,000	13,845,261	-	-	14,493,597
Interest and Other Charges	89,937	78,541	10,155,434	-	-	10,323,912
Total Expenditures	**104,945,829**	**6,403,875**	**24,000,695**	**13,673,939**	**13,368,896**	**162,393,234**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(11,282,766)**	**(4,395,734)**	**2,764,253**	**(66,895)**	**(275,465)**	**(13,256,607)**

continued

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):						
Transfers – In	$ 2,625,236	$ 358,109	$ 6,058,615	$ -	$ -	$ 9,041,960
Transfers – Out	(6,050,272)	(257,169)	(2,204,000)	-	(530,519)	(9,041,960)
Total Other Financing Sources (Uses)	**(3,425,036)**	**100,940**	**3,854,615**	**-**	**(530,519)**	**-**
SPECIAL ITEMS:						
Sales of Capital Assets	6,500,000	-	-	-	-	6,500,000
Sales of Other Assets	98,500	-	-	-	235,774	334,274
Total Special Items	**6,598,500**	**-**	**-**	**-**	**235,774**	**6,834,274**
Net Change in Fund Balances	**(8,109,302)**	**(4,294,794)**	**6,618,868**	**(66,895)**	**(570,210)**	**(6,422,333)**
Fund Balances – Beginning,						
As Previously Reported	19,781,150	14,432,103	11,459,393	27,512	1,985,581	47,685,739
Restatements	80,701	201,876	-	-	-	282,577
Fund Balances – Beginning, as Restated	19,861,851	14,633,979	11,459,393	27,512	1,985,581	47,968,316
FUND BALANCES – ENDING	**$ 11,752,549**	**$ 10,339,185**	**$ 18,078,261**	**$ (39,383)**	**$ 1,415,371**	**$ 41,545,983**

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

Net Change in Fund Balances – Government Funds (Page 32)		**$ (6,422,333)**
Amount reported for Governmental Activities in the Statement of Activities (Page 28) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of 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	$ 7,077,900	
Donated Capital Assets	276,075	
Depreciation Expense	(15,623,981)	
Excess of Capital Outlays over Depreciation Expense		(8,270,006)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	136,383	
CRIM - Property Taxes Liquidation	601,694	
Christmas Bonus	150,750	
Total Revenues		888,827
Governmental funds only report the proceeds received in the disposal of assets. In the Statement of Activities, a gain or loss is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the cost of the disposed asset.		(4,471,233)
Notes receivables classified as long term, because the due date is not current, are not recorded in the Statement of Net Position. In the current period the change in note receivables was		6,492
The Statement of Activities reports as a loss the difference between the cost and the market value of housing units held for sale		(175,715)
Repayment of long-term principal is expenditure in the governmental funds, but the repayment reduced Noncurrent Liabilities in the Statement of Net Position. In the current period repayments were		14,493,597
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 Legal Claims	92,681	
Increase in Christmas Bonus	(30,700)	
Decrease in MRCC Property Taxes Liquidation	135,366	
Decrease in Debt with the Retirement Plan System	801,428	
Increase in Other Long Term Debts	292,498	
Increase in Net Pension Liability	(5,251,612)	
Increase in Compensated Absences	(173,321)	
Total Additional Expenses		(4,133,660)
Change in Net Position of Governmental Activities (Page 28)		**$ (8,084,031)**

The accompanying *Notes to 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 Caguas of the Commonwealth of Puerto Rico (Municipality) over which the Mayor and the Municipal Legislature, have direct or indirect governing and fiscal control. The accompanying 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 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under Law No. 81 of August 30, 1991, known as the "Autonomous Municipalities Laws of the Commonwealth of Puerto Rico". The governmental system of the Municipality is composed of the executive and legislative bodies. It is governed by a Mayor and a 16 member Municipal Legislature elected for a four-year term.

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,* require 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.

continue

1. FINANCIAL REPORTING ENTITY – continuation

A legally separate, tax-exempt organization should be discretely presented as a component unit if all of the following criteria are met: (a) 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; (b) 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; (c) 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.

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, 2016, 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. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges to external customers for support.

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 each function of the Municipality's Governmental Activities. *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 (Expenses) and Changes in Fund Balance*] provide information about the Municipality's funds. Separate statements for each fund category-governmental are presented. The emphasis on fund financial statements is on major governmental, each displayed in a separate column. All remaining governmental are aggregated and reported as nonmajor funds.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

By definition, the general fund is always considered a major fund. Governmental funds other than the general fund must be reported as major funds if they meet both the ten percent and five percent criterion, defined respectively, (1) An individual governmental fund reports at least ten percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures; (2) an individual governmental fund reports at least five percent of the aggregated total for both governmental funds and enterprise funds of any one of the items for which it met the ten percent criterion. In addition, a fund may be reported as major if it is believed to be of particular importance to financial statement users.

The Municipality reports the following major governmental funds:

General Fund – This fund is the general operating fund of the Municipality. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Capital Projects Fund – Capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. It also includes the Community Development Block Grants (CDBG) which is awarded to develop viable urban communities by providing decent housing and suitable living environment for persons of low and moderate income.

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

Health and Human Services Fund - This fund started as a major fund during this year. It is used to account for the revenue and expenditures of the Head Start Program and the Elderly Center of the Municipality as well as other related welfare services.

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.

The financial statements of the governmental funds are the following:

Balance Sheet – Reports information at June 30, 2016 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 Balances – Reports information about the inflows, outflows and balances of current financial resources of each major governmental fund for the fiscal year ended June 30, 2016.

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 Balance*] 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 Financial Statements

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

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a *Schedule of Revenues and Expenditures Budget and Actual – General Fund – Non GAAP Budgetary Basis*, 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 was 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, including the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Municipality's Contributions to the Employees' Retirement Systems.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Government-wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *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, 2016, 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 Shee*t. All other revenue items are considered to be measurable and available only when cash is received by the Municipality.

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, 2016, which are recorded as governmental fund liabilities of June 30, 2016 which is the date when resources were available in the debt service fund. Proceeds of general long-term debts and acquisitions under capital leases, if any, are reported as other financing sources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

continue

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 *Schedule of Revenues and Expenditures Budget and Actual – 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, the Act establish that municipalities reflecting a surplus in the current budget should be used to repay debt, and that by exception may establish an Emergency Fund, and enter up to thirty percent (30%) of the surplus to that fund. In addition, the municipalities that have not accumulated deficits may be used the surplus to increase the Emergency Fund.

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 *Schedule of Revenues and Expenditures Budget and Actual – General Fund*, is presented on the budgetary basis to enhance comparability.

Final Budget

The final budgetary data presented in the *Schedule of Revenues and Expenditures Budget and Actual – 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.

continue

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.

D. Assets, Liabilities, and Net Position / Fund Balance

1) Cash, Cash Equivalents, Cash with Fiscal Agent, and Investment

The Municipality's cash 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, follows the guidelines, is responsible for investing the available resources in certificates of deposit and other short-term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to disclose certificates of deposit and other short-term investments individually by fund in the combined financial statements.

Interest earned on certificates of deposit and other short-term investments are recognized as revenue in the General Fund in accordance with the amount invested. 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.

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 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 restricted 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, 2016. 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. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2016. 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 of 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 acquired or constructed, whether owned by governmental activities are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets, include public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the Municipality). Capital assets with an individual cost of $40,000 or more are recorded at cost or estimated historical cost if purchased or constructed. Capital assets under this amount are capitalized if the estimated life of assets is extended by more than 25%, the cost results in an increase in the capacity of the asset, the efficiency of the assets is increased by more than 10%, significantly changes the character of the assets or in the case of streets and roads-if the work done impacts the "base" structure. Donated capital assets are recorded at the estimated fair value at the date of donation. Equipment and other with a cost of $100 or more are recorded at cost or estimated historical cost.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The cost of normal maintenance and repairs that do not add to the value of the capital asset or extend capital assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Finally, major outlays for capital assets and improvements are capitalized as the projects are constructed.

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the governmental funds within the capital outlays and included as additions in the roll-forward activity of the capital assets in the GWFS. However, in the *Statement of Activities*, the cost of those assets is allocated over the estimated useful lives and reported as a depreciation expense. As a result, fund balance decrease by the capital outlays balance – the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

CAPITAL ASSETS	YEARS
Facilities and Improvements	10-40
Buildings and Improvements	10-50
Infrastructure	10-50
Equipment and Vehicles	5-20
Work of Art (Inexhaustible)	N/A

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 function.

The accounting policy for Works of Art is that they are capitalized at their historical cost or fair value at date of donation whether they are held as individual items or in a collection. Capitalized collections or individual items that is exhaustible, such as exhibits whose useful lives are diminished by display or educational or research applications, are depreciated over their estimated useful lives. Depreciation is not required for collections or individual items that are inexhaustible. At June 30, 2016, all Work of Art are considered inexhaustible.

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 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

5) Housing Units Held for Sale

Capital assets that have been identified to be for sale are presented as part of the noncurrent assets.

6) Idle Units Held for Future Use

Capital assets that have been temporarily idled and held for future use are presented as part of the noncurrent assets.

7) 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, it arises when the following situations occur: potential revenue does not meet both the measurable and available criteria for revenue recognition in the current period.

8) 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 Net 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(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

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.

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 18 presents additional information about the composition of these items.

- Various types of revenues earned but not available within 60 days of fiscal year end.

Notes 13 and 17 provides details on deferred outflows of resources and deferred inflows of resources.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality has items, which arise only under accrual basis and modified accrual basis of accounting that qualify for reporting in deferred outflows/inflows of resources. Accordingly, the items, related to pension system are reported in the government-wide *Statement of Net Position*, and *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from three sources: Christmas Bonus Reimbursement and Liquidation from Municipal Revenue Collection Center (MRCC), both from the Commonwealth, and Federal Grants. This amount is deferred and recognized as an inflow of resources in the period that the amount become available.

9) 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, if any, 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.

10) 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, 2016. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

11) 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 Noncurrent Liabilities includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payment.

12) 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—an amendment of GASB Statement No. 27*, 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. 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 No. 68, is required to be implemented simultaneously with the provisions of GASB No. 68.

The Municipality implemented both GASB Statements No. 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, with unaudited information available at the date of the Municipality's reports. After that, on June 2016 the plan issued its audited financial statements with a decrease in Fiduciary Net Position and an increase in Net Pension Liability. Accordingly, the beginning Net Pension Liability as of July 1, 2015, increased by $308,048 with the corresponding reduction in the Net Position of the Municipality.

At the date of issuance of the basic financial statements of the Municipality, the ERS has not issued the corresponding audited financial statements as of June 30, 2015, nor the attachments required by GASB 68. However, the unaudited information for the year 2014 and the June 30, 2015 Actuarial Valuation Report issued by the actuaries were used by the Municipality to update the values of the Net Pension Liability, Deferred Outflows / Inflows of Resources and Pension Expense items corresponding to the fiscal year 2016.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

The Municipality accounts for pension costs from the standpoint of a participant in a multiple-employer cost-sharing multi-employers 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.

For the purpose of applying the requirements of GASB 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 cost-sharing multi-employer 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 18).

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.

Also, the Municipality participates in a contributory defined contribution plan named "Programa Head Start Municipio Autónomo de Caguas Money Purchase Plan".

13) Net Position/Fund Balance

A) Net Position

Net position represent the difference between assets, plus deferred outflows of resources less liabilities, and deferred inflows of resources is "Net Position" on the GWFS.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Net Investment 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.

  For Governmental Activities, Net Investment in Capital Assets is comprised of the following:

Capital Assets, Net of Accumulated Depreciation	$428,998,057
Outstanding Balance on Related Debt	(161,773,931)
Unspent Capital Debt Proceeds	8,208,626
Net Investment in Capital Assets	$275,432,752

- *Restricted Net Position* – These results when constraints placed on net position 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 consists of net position which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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 government-wide fund financial statements, 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 spent because they are either (a) not spendable in form; or (b) legally or contractually required to be maintained intact.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Restricted* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulation of other governments; or (b) 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 resolution 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 resolution 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. 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.

continue

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 the 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, 2016.

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.

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:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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 no 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, 2016 amounted to $1,610,504, 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, 2016 amounted to $2,329,071.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2016, that are determined to be significant and material that should be considered for financial statement purposes. Within this process, management consults with its legal counsel and performs monitoring procedures over significant receipts and disbursements and over the Municipal Legislature ordinances and resolutions, among other procedures.

J. Accounting Standards Issued But Not Yet Adopted

The Governmental Accounting Standards Board issued the following pronouncements that have effective dates after June 30, 2016:

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*.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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:

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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 No. 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.

This Statement amends the scope and applicability of Statement No. 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 of 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 of 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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 financial statements for periods beginning after June 15, 2016 (FY 2016-2017). Earlier application is encouraged.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts, or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements, in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is not effective until fiscal year 2018.

GASB Statement No. 82, *Pension Issues- an Amendment of GASB Statements No 67, No. 68 and No. 73*. This Statement addresses certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73. The Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, GASB Statements No. 67 and No. 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends GASB Statements No. 67 and No. 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of GASB Statement No. 67, GASB Statement No. 68, or GASB Statement No. 73 for the selection of assumptions used in determining the total pension liability and related measures.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of GASB Statement No. 67 and as employee contributions for purposes of GASB Statement No. 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In the circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (FY 2017-2018). Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. A government should remeasure an ARO only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

A government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. Additionally, a government may have a minority share of ownership interest in a jointly owned tangible capital asset in which no joint owner has a majority ownership, and a nongovernmental joint owner that has operational responsibility for the jointly owned tangible capital asset reports the associated ARO in accordance with the guidance of another recognized accounting standards setter. In both situations, the government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This Statement requires disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the government's AROs, if not separately displayed in the financial statements.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. And exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable, (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 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. ANNUAL REVENUES

A. Property Taxes

The Municipal Revenue Collection Center (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. The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are determined based on the market value existing as of 1957 and of personal property at the current value at the date of assessment. 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. For fiscal year 2015-2016, this difference was recorded as a long-term debt for the amount of $1,929,930.

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first $15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount of the exonerated tax base as of January 1, 1992, except for residential units assessed at less than $3,500 on which a complete exemption is granted. 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. Complete exemption from personal property taxes up to an assessment of $50,000 is granted to retailers with an annual volume of net sales under $150,000. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

continue

3. ANNUAL REVENUES – continuation

The effective tax rate for the fiscal year ended June 30, 2016 is 10.03% for real property and 8.03% for personal property of which 1.03% of each class of property belongs to the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows:

1) 6.00% and 4.00% for real and personal property, represent the Municipality's basic property tax rate which is appropriated for general purposes and accounted for in the general fund. The basic property tax rate is segregated by MRCC and accounted for 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 equalization fund assures that every municipality receive at least an amount equal to the tax collected to its base year or prior year.

   The Commonwealth makes a contribution equivalent to .20% portion of the tax rates to compensate the municipality for a discount granted to the taxpayers. Accordingly, the tax rates imposed to the taxpayer for real and personal property are 9.83% and 7.83%, respectively.

2) 3% of each represents the ad valorem tax restricted for debt service and accounted for in the debt service fund.

Since the collection of property taxes, for all of the Municipalities in Puerto Rico, is a responsibility of the MRCC, it shall report to the Municipality the estimated and actual property taxes collections, as well as the operational expense allocation to each local government. During the fiscal year ended June 30, 2016 the allocated expenses to the Municipality amounted to $1,339,726.

Section 5803(b) of Law No. 80 of the MRCC, allows the municipalities to develop and carry on activities and programs to expedite the assessments of new constructions and existing properties not yet assessed. Accordingly, along with a covenant with the MRCC, the Municipality engaged into an initiative, in order to increase the tax base of assessed properties over which the tax rate is applied and to expedite the collection of the taxes receivable in arrears at the MRCC (there is no receivable recorded within the Municipality's general ledger). The Municipality contracted an external consulting firm to assist and expedite these services. Among the different types of services offered, the consulting firm has engaged into the process of assisting the MRCC to assess the new construction and other existing properties. These assessments will become then part of the MRCC tax roll register. This is the subsidiary of all properties assessed for tax purposes.

The new assessed properties are submitted for review and validation by the MRCC which proceeds to assign the assessed valuation and the tax to be imposed. Then, the MRCC determine those new properties that would to be added in the tax roll, either because they are from new construction or because are previous existing properties, with betterments identified but not reported previously. This process is performed either through physical inspections, knowledge of existent activities within the Municipality, and comparing the sales volume taxes returns (in case of commercial properties) with the property taxes returns, among other strategies. The updated information is delivered to the MRCC in order to be included within the tax roll for subsequent taxes levies.

Also the consulting firm provides support to the Municipality by attending the taxpayers' request for services and by providing follow up on the MRCC taxes receivables in arrears. The purpose of these combined efforts is to improve the efficiency of the tax service and collections.

continue

3. ANNUAL REVENUES – continuation

Ordinance Number 12A-48 was approved for the purpose of reviewing the tax incentives to the jurisdiction of the Municipality and the special development zone and other traditional urban center, and authorizes the creation of a new code of socio-economic development incentives.

Personal Property

Incentive Municipal on Personal Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years.

- The down town and development designated areas, would enjoy 100% exemption on municipal taxes on personal property for a period of two years, followed by a 90% exemption on municipal taxes on personal property for a period eight years.

Incentive Municipal on Personal Property Taxes – Established Business

- The exemption only applies to the personal property tax in excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as personal property tax base period.

- The down town and development designated areas, the personal property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

Real Property

Incentive Municipal on Real Property Taxes – New Business

- A 75% exemption on municipal taxes on real property for a period of five years and 40% exemption on municipal taxes on real property for a period of 10 years.

- The down town and development designated areas, would enjoy a 90% exemption on real property for a period of 10 years.

Incentive Municipal on Real Property Taxes – Established Business

- The exemption only applies to the real property tax in the excess of the average payment for such costs during the three years prior to the date of the application, which is referred to as real property tax base period.

- The down town and development designated areas, the real property tax base period will be adjusted, reducing that amount by twenty percent (20%) annually until it is reduced to zero for the fifth taxable year.

continue

3. ANNUAL REVENUES – continuation

B. Volume of Business Taxes

The Municipality imposes a volume of business tax pursuant to Act No. 113 of July 10, 1974, on all business entities, which operate within the Municipality, which are not exempt from the tax pursuant to the Industrial Incentives Act. The tax is based on gross revenues, as defined by law, computed at the rate of 1.50% for financial institutions and savings and loans associations, and .50% for all other business entities.

The minimum gross revenue to file the Volume of Business Tax Declaration is $5,000 and the minimum tax payable is $25. The date to file the Volume of Business Tax Declaration is April 15 each year. Entities with sales volume of $3.0 million or more must include audited financial statements together with the tax return. The Municipality grants a five percent discount, if the taxes are paid on or before April 15. Otherwise, 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, 2016.

The following incentives related to Volume of Business Taxes were implemented with Ordinance 12A-48:

Volume of Business Tax Incentive – New Business

- A 75% exemption for a period of five years or a 40% exemption for a period of 10 years.

Volume of Business Tax Incentive – Business Established

- The exemption only applies to the business volume in excess of the average volume during the three years prior to the date of the application, which is referred to as base volume business. The volume of business tax attributable to the base volume business will be subject to regular tax rates.
- In the down town and development designated areas, the volume of business tax basis will be adjusted, reducing such amount by (20%) annually until it is reduced to zero for the fifth taxable year.

Collections of volume of business tax revenues received mainly in April 15, are accounted as unearned revenues, since such collections have a time requirement and should be used starting July 1st of next fiscal year. In the next fiscal year, the unearned revenue is recognized as revenue, net of any credit or refunds payable to taxpayers.

C. Sales and Usage Taxes

Municipality imposes a Sales and Usage Taxes of 1.0% collected and belong to the Municipality on the sales price of a taxable item or on the purchase price of all usage, storage or consumption of a taxable item (changes as per Act Number 18 of 2014). All merchants required to collect the Sales and Usage Taxes, are required to file a monthly Sales and Usage Taxes Return Form, no later than the 20th of the following month from the month being reported. The Act also provides for restrictions on the use of the resources to be invested in solid waste and recycling programs, capital improvements and health and public safety costs.

continue

3. ANNUAL REVENUES – continuation

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 and Usage Taxes receivable represents filed sales tax returns that were collected subsequent to June 30, 2016, 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.

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.

continue

3. ANNUAL REVENUES – continuation

D. Construction Excise Taxes

Ordinance 11-A-54 provides for a procedure for the administration and collection of construction excise tax, within the Municipality jurisdiction.

The construction excise tax generally is a self-assessed tax imposed over the cost of the project. The tax is paid by the taxpayer before the beginning of the construction project, if a permit is required to begin the construction, the taxpayer should file the tax return 30 days after the submission of the permit; otherwise, the file should be made at least 15 days before the construction activity. The activities covers by this tax and the exemption granted are as follows:

1) All construction will pay 6% of construction excise taxes.

2) Construction projects of detached properties (not part of a housing development), with a cost of $90,000 or less will pay 3% of construction excise taxes. If the cost exceeds the $90,000, the applicable rate will be 6% over the $90,000 cost.

3) All construction projects carried out whose owner is a bona-fide farmer, certified by the Department of Agriculture, have full exemption to the construction excise taxes.

4) Major repairs and improvements of detached properties occupied by their owner, for which cost don't exceed $15,000, have full exemption to the construction excise taxes. If related costs exceed $15,000, the excess over this amount will be subject to a 3% of construction excise tax.

5) All improvements made to commercial or private property in the down town, as well of major improvements to buildings, parks, prayer centers or studies of philosophic or human nature have full exemption to the construction excise taxes.

6) All construction projects carried out by not-for-profit organization or educational institutions have full exemption to the construction excise taxes.

4. CASH, CASH EQUIVALENTS

Cash in Banks

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.

continue

4. CASH, CASH EQUIVALENTS – continuation

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.

Municipality follows the practice of pooling cash. At June 30, 2016, the pool cash account in commercial banks had a balance of $32.3 million of which $22.5 million in the General Fund, $1.1 in Health and Human Services Fund, $5.7 million in the Capital Projects Fund, and $3.0 million in Other Governmental Funds. Any deficiency in the pooled cash account is assumed by the general fund and covered through future budgetary appropriation.

Cash with Fiscal Agent in the debt service fund consists principally of property tax collections amounting to $30.9 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent of $2.2 in the General Fund are restricted for future expenditures, $8.8 million in the Capital Projects Fund restricted to improvement of recreational facilities, and $483,591 in Other Governmental Funds consist principally of unspent proceeds of bonds that are restricted for the acquisition, construction or improvement of major capital assets. 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. 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, 2016:

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016, the Municipality has invested only in cash equivalents of $32.3 million consisting of interest bearing account in commercial banks, 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, 2016. 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, 2016.

Custodial Credit Risk Related to Deposits

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 Commonwealth adopted by GDB, the Municipality may invest in obligations of the Commonwealth, 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, 2016, the Municipality has balances deposited in commercial banks amounting to $32.3 million which are insured by the FDIC up to the established limit and the excess are fully collateralized as explained above. Deposits in GDB, amounting to $42.4 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2016. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB.

continue

4. CASH, CASH EQUIVALENTS – continuation

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.

Remediation Plans – GDB

On April 6, 2016, the Governor signed into law Act No. 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (as amended pursuant to Act 40-2016, "Act No. 21"). Act No. 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth and certain government instrumentalities, including GDB. In respect to GDB, Act No. 21 also allows the Governor to take all actions that are reasonable and necessary to allow GDB to continue carrying out its operations. The temporary period set forth in Act No. 21 lasts until January 31, 2017, with a possible two-month extension at the Governor's discretion. The moratorium and stay provisions with respect to any obligations owed by GDB require executive action of the Governor to become effective.

On April 8, 2016, the Governor signed Executive Order No. 2016-010 ("EO No. 23016-010"), declaring GDB to be in a state of emergency pursuant to Act No. 21. In accordance with the emergency powers provided for in Act No. 21, EO No. 2016-010 implemented a regulatory framework governing GDB's operations and liquidity, including prohibiting loan disbursements by GDB and establishing a procedure with respect to governmental withdrawals, payments, and transfer requests with respect to funds held on deposit at GDB. To that effect, EO No. 2016-010 restricts the withdrawal, payment and transfer of funds held on deposit at GDB to those reasonable and necessary to ensure the provision of essential services and authorizes GDB to establish weekly limits on the aggregate amount of such disbursements. Moreover, EO No. 2016-010 prohibits GDB depositors from printing or writing checks creditable against their accounts at GDB, unless they obtain a temporary waiver from GDB. Finally, pursuant to Act No. 21, EO No. 2016-010 suspends Article 6 of Act No. 17 of September 23, 1948, as amended (the "GDB's Enabling Act"), which required GDB to maintain a reserve of not less than 20% of its liabilities on accounts of deposits on demand.

Further, on April 30, 2016, the Governor signed Executive Order No. 2016-014 ("EO No. 2016-014"), which, among other things, (1) designates deposits and letters of credit of GDB as "enumerated obligations" of GDB, thereby making them "covered obligations" of GDB and, therefore, subject to the stay provisions of Act No. 21, (2) declares a moratorium with respect to the financial obligations of GDB (other than deposits and interest obligations that may be paid in kind), (3) provides that interest payments in respect of GDB's financial obligations may be made to the extent authorized by the Governor, and (4) declares an emergency period with respect to certain obligations of PRIFA that are secured by a letter of credit issued by GDB. Pursuant to EO No. 2016-014, on May 1, 2016, GDB failed to make a principal payment of approximately $367 million in respect of its notes.

Act No. 21 also included amendments to GDB's Enabling Act to include certain statutory options and tools useful for any resolution, reorganization or restructuring that GDB may undertake in the future. Specifically, these amendments modernize the receivership provision in the GDB's Enabling Act and authorize the creation of a temporary "bridge bank" to carry out GDB's functions and honor deposits.

continue

4. CASH, CASH EQUIVALENTS – continuation

Finally, Act No. 21 also created a new fiscal agency and financial advisory authority to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its instrumentalities, and municipalities.

GDB's management has determined that, even under the framework of EO No. 2016-010 and EO No. 2016-014, GDB will require additional sources of liquidity through appropriations for the payment of debt service by the Commonwealth in fiscal year 2017 on GDB's appropriation loans or some other appropriation to GDB and the consummation of a comprehensive restructuring of its debt obligations for GDB to continue operating in fiscal year 2017 and beyond.

Therefore, the Municipality's management has concluded that at June 30, 2016, 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, 2016, (2) limiting the weighted average maturity of its investments in certificates of deposit to periods of four 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, 2016, 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, 2016.

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* and Governmental Funds Balance Sheet reports *unearned* revenues for resources received before it has a legal claim to them; in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, which corresponded to Volume of Business Taxes in the amount of $16,166,307.

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6. LOANS AND OTHER RECEIVABLES

Loans receivable recorded in non-major governmental funds consists various loans issued to qualified participants for home buying and commercial loans provided with federal funds. This amount is presented net of estimated allowances for uncollectible amounts of $510,871, which were determined based upon past collection experience.

Other receivables in the amount of $306,181, are related to rent and other charges received after year end.

On October 20, 2014, the Municipality signed a Note Receivable for $1,050,000 in exchange for a land, in which an apartment building was constructed. The note is no-interest bearing, and the full payment will be received on October 24, 2054. In order to recognize the amortization of the present value of the note, the percentage used was a 6%, based on bonds issued by the Municipality in 2014.

7. INTERGOVERNMENTAL REVENUES, FEDERAL AND STATE GRANTS AND SUBSIDIES

Intergovernmental revenues consist primarily of funds received from the Commonwealth, "in lieu of tax" payments from the Quasi-Public Corporation, Puerto Rico Electric Power Authority (PREPA), and financial assistance received from state governments. Intergovernmental revenues are accounted for through the General Fund because they are not restricted for specific purpose.

Grants and subsidies received from the Commonwealth 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 Revenues and the Capital Project Funds. Federal Financial Awards are recorded in the General Fund, Special Revenue Fund, Capital Projects Funds, and Health and Human Services Fund.

8. INTER-FUND TRANSACTIONS

A. Due from/to Other Funds

Inter-fund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. Following is a summary of inter-fund assets and liabilities as of June 30, 2016:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects	$ 4,058,897
	Health and Human Services Fund	1,738,222
	Other Governmental Funds	2,843,708
		$ 8,640,827

The purpose of each inter-fund balances are the following:

Payables to the general fund:

<u>Capital Projects Fund</u> – includes expenditures mainly of the Capital Loans Funds, Community Development Block grants and other related projects sponsored by the Municipality, which are initially disbursed through the General Fund.

continue

8. INTER-FUND TRANSACTIONS – continuation

Health and Human Services Funds – includes expenditures mainly for payroll which were initially disbursed through the General Fund.

Other Governmental Funds – includes expenditures mainly to finance certain public safety, housing and health and welfare projects that involve both the use of federal and municipal funds and which were initially disbursed through the General Fund.

B. Transfers In/Out

Inter-fund transfers in/out reflect the transfers of resources from one fund to another without the attempt of recovering such revenues. Following is a summary of inter-fund transfers for the year ended June 30, 2016:

Transferred In	Transferred Out	Amount	Purposes
Debt Service	General Fund	$ 6,050,272	Payment of Interest and Principal of Debt
General Fund	Debt Service Fund	2,204,000	Transfer of Equity
Capital Project Fund	Nonmajor Funds	358,109	Capital Projects
General Fund	Capital Projects Fund	249,112	Transfer of Equity
Debt Service Fund	Capital Projects Fund	8,057	Transfer of Equity
Debt Service	Nonmajor Funds	286	Transfer of Equity
General Fund	Nonmajor Funds	172,124	Transfer of Equity
		$ 9,041,960	

9. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2016, for the General Fund, corresponds to $444,750 from Puerto Rico Treasury Department for the Christmas Bonus, and $327,530 from the Puerto Rico Department of Education related to maintenance of schools. For the Debt Service fund corresponds to payments not received of property taxes. For the Other Governmental Funds, $124,651 corresponds to receivables from the Commonwealth related to State Assignments.

10. FEDERAL GRANTS RECEIVABLE

The due from federal grants of the Capital Projects Fund for the fiscal year ended June 30, 2016 corresponds the Community Development Block Grant/ Entitlements Grant (CDBG), from US Department of Housing and Urban Development (HUD). The amount reported within the Health and Human Services Fund corresponds mainly to the Head Start Program from the US Department of Health and Human Services for the amount of $9,218,849. The amount reported on Other Governmental Funds correspond mainly to the Home Investment Partnership Program for the amount of $1,079,798 and to the Emergency Shelter Grant Program for the amount of $107,521, both from the US Department of Housing and Urban Development, and $57,593 in other Federal programs.

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11. CAPITAL ASSETS

A summary of the activity of capital assets for governmental activities group follows:

DESCRIPTION	BALANCE JULY 1, 2015	ADJUSTMENT	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2016
Non-Depreciable Capital Assets:						
Land and Improvements	$ 95,525,121	$ (523,473)	$ -	$ 1,650,480	$ (3,750,000)	$ 92,902,128
Construction in Progress	6,008,652	-	(494,198)	1,847,726	-	7,362,180
Works of Art	2,261,726	-	-	-	-	2,261,726
Total Non-Depreciable Capital Assets	103,795,499	(523,473)	(494,198)	3,498,206	(3,750,000)	102,526,034
Depreciable Capital Assets:						
Facilities and Improvements	122,962,974	-	-	1,113,589	-	124,076,563
Buildings and Improvements	122,434,054	-	-	-	-	122,434,054
Infrastructure	415,471,955	-	494,198	1,293,585	-	417,259,738
Equipment and Vehicles	30,496,808	-	-	2,016,081	(1,507,030)	31,005,859
Total Depreciable Capital Assets	691,365,791	-	494,198	4,423,255	(1,507,030)	694,776,214
Less Accumulated Depreciation:						
Facilities and Improvements	(64,026,516)	-	-	(3,443,910)	-	(67,470,426)
Buildings and Improvements	(51,384,344)	-	-	(2,505,176)	-	(53,889,520)
Infraestructure	(217,855,369)	-	-	(7,477,874)	-	(225,333,243)
Equipment and Vehicles	(20,776,430)	-	-	(2,197,021)	1,362,449	(21,611,002)
Total Accumulated Depreciation	(354,042,659)	-	-	(15,623,981)	1,362,449	(368,304,191)
Total Depreciable Capital Assets (Net)	337,323,132	-	494,198	(11,200,726)	(144,581)	326,472,023
CAPITAL ASSETS, NET	**$ 441,118,631**	**$ (523,473)**	**$ -**	**$ (7,702,520)**	**$ (3,894,581)**	**$ 428,998,057**

The Municipality's policy is to transfer construction in progress properly concluded to other classification of capital assets if such capital project is being used. See Note 23 for information related to adjustments to capital assets. Also the detail of these amounts is presented in the previous table including the activity of the capital assets.

Depreciation expense for capital assets of governmental activities was charged to the following functions as follows:

	AMOUNT
Governmental Activities:	
General Government	$ 812,612
Public Safety	187,900
Public Works (Mainly Streets)	7,874,326
Culture and Recreation	4,182,510
Health and Welfare	116,559
Economic Development	932,487
Housing	146,187
Sanitation and Environmental	91,972
Education	1,279,428
Total Depreciation Expenses	$ 15,623,981

continue

12. OTHER NON-CURRENT ASSETS

The Municipality reported during this year property held for future sale as other non-current assets. This property was acquired with the intent of selling them to low income families, constituents of the Municipality. As required by GASB No. 72, the Municipality assessed the fair value of this units at June 30, 2016 for $535,848.

The Municipality has the following recurring fair value measurements as of June 30, 2016:

Units Held for Sale by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Units Held for Sale	$ 535,848	$ 535,848	$ -	$ -

The level of fair value hierarchy used, was Level 1; that is, the units were quoted based on similar properties sold by the Municipality during the fiscal year. A loss in the recognition of the change in the fair value of $175,715 was reported within the housing expense function in the government-wide *Statement of Activities*.

Also, idle units held for future use were reported during this period given that property included in the schedules of construction in process remained with the same balance since prior year and no additions from construction were reported. Funds assigned to those projects were distributed for other purposes.

13. DEFERRED OUTFLOWS 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.

At the end of the current fiscal year, the Municipality has an item that are reportable on the Government-wide *Statement of Net Position* that are relates to outflows from changes in the Net Pension Liability (Note 18), as follows:

Statement of Net Position:	
Deferred Outflows of Resources	
Contributions to ERS	$ 26,633,916

14. DEBT MARGIN

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 legal debt margin of the Municipality is equal to 10% of the total property assessment located within the Municipality's jurisdiction.

continue

14. DEBT MARGIN – continuation

As discussed on Notes 24 and 25 to the basic financial statements on pages 105 through117, Puerto Rico fiscal crisis affects all instrumentalities, including municipalities. Actually, the Commonwealth does not have access to the finance market. The municipalities obtained loans through the Governmental Development Bank (GDB), or Commercial Banks with the endorsement of GDB. GDB do not have access to market and close the issuance of new loan to municipalities. Therefore, the determination of the Municipality's debt margin depends on the access to the markets of GDB and Commercial Banking loans to which it does not have access.

15. LONG-TERM DEBTS

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 16).

The following is a summary of general and special obligation bonds of the Municipality as of June 30, 2016:

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1998	2,200,000	2018	5.62%	$ 345,000
General Construction	2000	776,000	2019	4.50%	164,027
General Construction	2000	13,300,000	2016	4.87% to 6.34%	1,315,000
General Construction	2000	10,350,000	2026	2.70% to 7.81%	6,130,000
General Construction	2000	3,150,000	2024	2.70% to 7.81%	1,845,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	6,455,000
General Construction	2002	125,000	2026	2.70% to 5.60%	55,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	860,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	6,600,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	1,090,000
General Construction	2005	460,000	2029	2.53% to 5.31%	325,000
General Construction	2005	370,000	2029	2.53% to 5.31%	265,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	920,000
General Construction	2006	9,910,000	2021	1.53% to 6.62%	4,735,000
General Construction	2005	1,640,000	2030	4.50%	1,131,000
General Construction	2005	500,000	2030	4.75%	349,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	6,945,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	6,955,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	6,200,000
General Construction	2006	2,695,650	2031	4.75%	1,969,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	5,130,000

continue

15. LONG-TERM DEBTS – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income: - continuation					
General Construction	2008	624,000	2030	4.50%	458,000
Operational Purpose	2010	9,740,000	2034	4.75% to 7.50%	8,700,000
Operational Purpose	2010	975,000	2016	5.00% to 7.50%	170,000
General Construction	2010	255,000	2016	5.00% to 7.50%	45,000
General Construction	2011	2,285,000	2035	3.65% to 7.50%	2,095,000
General Construction	2011	730,000	2035	3.08% to 7.50%	670,000
General Construction	2011	330,000	2035	3.65% to 7.50%	305,000
General Construction	2011	2,480,000	2035	3.65% to 7.50%	2,270,000
General Construction	2011	3,525,000	2030	3.65% to 7.50%	3,225,000
Operational Purpose	2011	20,540,000	2035	3.65% to 7.50%	18,795,000
General Construction	2012	18,285,000	2036	3.47% to 7.50%	15,359,400
General Construction	2012	815,000	2021	3.36% to 7.50%	489,000
General Construction	2012	245,000	2036	0.37% to 7.50%	205,800
General Construction	2012	2,015,000	2018	3.38% to 7.50%	863,572
General Construction	2012	615,000	2018	3.38% to 7.50%	263,572
General Construction	2012	9,760,000	2018	3.35% to 7.50%	9,115,000
General Construction	2012	279,900	2037	4.50%	260,000
General Construction	2013	1,505,000	2037	6.00% to 7.50%	1,435,000
General Construction	2013	3,120,000	2030	4.25%	2,634,000
General Construction	2013	135,000	2019	6.00% to 7.50%	85,000
Refinancing	2014	506,847	2016	3.70% to 7.50%	186,847
Refinancing	2014	802,435	2017	3.80% to 7.50%	437,435
Refinancing	2014	249,680	2017	3.80% to 7.50%	134,680
Refinancing	2014	691,456	2034	3.95% to 7.50%	661,456
Refinancing	2014	982,565	2034	3.95% to 7.50%	942,565
Refinancing	2014	1,494,375	2035	3.95% to 7.50%	1,434,375
Refinancing	2014	721,569	2035	3.95% to 7.50%	691,569
Refinancing	2014	485,660	2035	3.95% to 7.50%	465,660
Refinancing	2014	992,583	2035	3.95% to 7.50%	952,584
Refinancing	2014	7,766,712	2035	4.05% to 7.50%	7,461,712
General Construction	2014	12,975,204	2036	3.95% to 7.50%	12,505,204
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	9,140,000
Operational Purpose	2014	1,485,000	2020	6.00% to 7.50%	1,135,000
General Construction	2014	5,930,000	2040	6.00% to 7.50%	5,850,000
Subtotal					**169,226,108**

continue

15. LONG-TERM DEBTS – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Special Obligations Bonds:					
General Revenues:					
General Construction	2002	$ 2,065,000	2027	3.66% to 6.41%	$ 1,305,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	3,265,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	9,695,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	5,715,000
General Construction	2007	8,575,000	2024	1.53% to 6.73%	4,815,000
General Construction	2007	10,075,000	2026	5.84% to 6.07%	6,555,000
General Construction	2007	500,000	2022	1.53% to 7.50%	269,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	2,490,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	4,510,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	5,754,000
Operational Purpose	2014	3,805,000	2038	6.00% to 7.50%	3,630,000
Operational Purpose	2015	3,850,000	2030	6.00% to 8.00%	3,690,000
Subtotal					**51,693,000**

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales & Usage Taxes:					
General Construction	2009	8,770,000	2033	1.48% to 7.50%	7,535,000
General Construction	2009	542,000	2033	1.48% to 7.50%	472,000
General Construction	2010	4,710,000	2034	4.75% to 7.50%	4,210,000
General Construction	2012	385,000	2018	6.00% to 7.50%	195,000
General Construction	2012	2,040,000	2019	6.00% to 7.50%	1,295,000
Operational Purpose	2014	7,445,000	2038	6.00% to 7.50%	7,220,000
Subtotal					**20,927,000**
Total Special Obligations Bonds					**72,620,000**
Section 108 Loan - CDBG:					
General Construction	2002	12,995,000	2022	2.66%	**2,400,000**
Total General and Special Obligations Bonds					**$ 244,246,108**

Principal and interest on the bonds are generally paid from amounts withheld by MRCC from the monthly property tax remittances and deposited in GDB until the payment to the bond holder.

Federal Loan

Federal loan at June 30, 2016 consist of a note payable in annual installments fluctuating from $200,000 to $600,000 with variable bearing interest at 2.66%.

continue

15. LONG-TERM DEBTS – continuation

The following is a summary of changes in long-term debt of the Municipality for the year ended June 30, 2016:

DESCRIPTION	BALANCE JULY 1, 2015	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2016	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 179,959,522	$ -	$ (10,733,414)	$ 169,226,108	$ 9,773,261	$ 159,452,847
Special Obligations Bonds	77,937,000	-	(5,317,000)	72,620,000	4,880,000	67,740,000
Federal Loans	3,000,000	-	(600,000)	2,400,000	600,000	1,800,000
Net Pension Liability	198,331,723	27,092,070	(6,633,353)	218,790,440	-	218,790,440
Other Obligations	18,796,994	8,448,658	(9,572,460)	17,673,192	6,775,047	10,898,145
TOTAL	**$ 478,025,239**	**$ 35,540,728**	**$ (32,856,227)**	**$ 480,709,740**	**$ 22,028,308**	**$ 458,681,432**

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.

B. 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 noncurrent liabilities outstanding as of June 30, 2016, are as follows:

	General Obligation Bonds		Special Obligation Bonds		Federal Loans		Other Obligations			
Year Ending June 30,	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Total Principal	Total Interest
2017	$ 9,773,261	$ 10,807,441	$ 4,280,000	$ 4,876,470	$ 600,000	$ 63,960	$ 6,775,047	$ 86,900	$ 21,428,308	$ 15,834,771
2018	8,549,529	10,392,116	4,512,000	4,603,802	600,000	47,250	748,299	83,672	14,409,828	15,126,840
2019	17,014,443	9,542,743	4,784,000	4,313,200	600,000	29,160	58,032	80,242	22,456,475	13,965,345
2020	8,323,700	8,990,276	5,004,000	4,128,192	600,000	9,900	61,678	76,595	13,989,378	13,204,963
2021	8,761,700	8,491,475	4,948,000	3,535,009	-	-	65,554	72,720	13,775,254	12,099,204
2022-2026	45,467,500	41,290,354	25,774,000	13,119,533	-	-	394,977	296,392	71,636,477	54,706,279
2027-2031	34,108,650	21,271,944	12,671,000	6,298,485	-	-	535,668	155,698	47,315,318	27,726,127
2032-2036	31,125,921	8,920,309	8,292,000	2,210,299	-	-	195,209	12,201	39,613,130	11,142,809
2037-2041	6,101,404	639,412	2,355,000	271,876	-	-	-	-	8,456,404	911,288
Unmatured	-	-	-	-	-	-	227,629,168	-	227,629,168	-
TOTAL	**$ 169,226,108**	**$ 120,346,070**	**$ 72,620,000**	**$ 43,356,866**	**$ 2,400,000**	**$ 150,270**	**$ 236,463,632**	**$ 864,420**	**$ 480,709,740**	**$ 164,717,626**

continue

15. LONG-TERM DEBTS – continuation

C. 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, 2016, 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.

D. Other Non-Current Liabilities

The following is a summary of changes in other non-current liabilities of the Municipality for the year ended June 30, 2016:

DESCRIPTION	BALANCE JULY 1, 2015	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2016	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 142-MRCC	$ 1,465,429	$ -	$ (48,336)	$ 1,417,093	$ 51,373	$ 1,365,720
PR Retirement System Administration	801,428	-	(801,428)	-	-	-
Claims and Judgments	704,534	-	(92,681)	611,853	280,500	331,353
MRCC-Property Taxes Liquidation	2,065,296	693,697	(829,063)	1,929,930	1,236,233	693,697
Christmas Bonus	1,084,932	1,115,632	(1,084,932)	1,115,632	1,115,632	-
Retainage Liability	292,498	42,486	(292,498)	42,486	-	42,486
Compensated Absences	12,382,877	6,596,843	(6,423,522)	12,556,198	4,091,309	8,464,889
TOTAL	**$ 18,796,994**	**$ 8,448,658**	**$ (9,572,460)**	**$ 17,673,192**	**$ 6,775,047**	**$ 10,898,145**

Due to Municipal Revenue Collection Center

The Act No. 42 dated January 2000, allows the Municipal Revenue Collection Center (MRCC, as per its Spanish acronyms) to issue debt based on the disbursements made in excess to the municipalities on their final liquidation prior to fiscal year 2000. The municipalities agreed to repay MRCC such loans in semi-annual installments plus accrued interest. In connection with Law 42 the Municipality issued a note payable to MRCC in the amount of $1,876,000 payable in 30 years plus interest at a semi-annual rate of 3.0938%.

Also, Property Taxes Liquidation for fiscal year 2015-2016 result in a payable to the MRCC in the amount of $693,697.

Accrued Legal Claims

This amount represents the amount accrued for possible claims arising from litigations as recommended by the Municipality's attorneys and classified as due after one year. Only claims presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

continue

15. LONG-TERM DEBTS – continuation

Christmas Bonus

This amount represents the estimated accrued Christmas bonus accumulated as of June 30, 2016 and payroll related benefits, representing the benefit to employees to be paid during the last week of November 2016.

Compensated Absences

The GWFS, Statement of Net Position, includes approximately $12.6 million in the governmental activities for 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. The General Fund have been used to liquidate the liability for this concept.

16. DEBT RETIREMENT

Revenues of the Debt Service Fund consist of the ad-valorem property taxes which are recognized as revenue when collected from taxpayers and reported by the MRCC to the Municipality (See Note 3).

These property taxes are accumulated by the MRCC in costs of the general obligations bonds issued by the Municipality (See Note 15). 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 of 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 10.5% 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.

continue

16. DEBT RETIREMENT – continuation

In addition, it created 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.

17. DEFERRED 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 inflows of resources in the government-wide and fund statements. These items are an acquisition 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 an item that are reportable on the government-wide *Statement of Net Position* that are relates to inflows from changes in the Net Pension Liability (Note 18).

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:

Statement of Net Position:	
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 1,584,668

Balance Sheet:	
Commonwealth of Puerto Rico	$ 1,046,444
Federal Grants:	
Capital Projects Fund	1,348,294
Head Start Program	8,423,133
Other Governmental Funds	923,777
Total Deferred Inflows of Resources	$ 11,741,648

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18. RETIREMENT PLANS

As further described in Note 2 D 12, the Municipality implemented GASB Statement No. 68, Accounting and Financial Reporting for Pension, during fiscal year 2015, and a new Required Supplementary Information schedules are included herein. Also, GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment to GASB No. 68, is implemented simultaneously with the provisions of GASB No. 68.

A. Employee's Retirement System of the Government of the Commonwealth of Puerto Rico

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 contributory, hybrid 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. 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 206 participating employers (73 Commonwealth agencies, 78 municipalities, and 55 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).

At July 1, 2013, membership of the ERS consisted of the following:

Retirees and beneficiaries currently receiving benefits	107,848
Current participating employees – defined benefit	62,163
Current participating employees – System 2000	63,508
Disabled members, receiving benefits	16,649
Total Membership	250,168

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

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

continue

18. RETIREMENT PLANS – continuation

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 Defined Contribution Hybrid Program.

Each member has a non-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.

The assets of the Defined Benefit Program, the Defined Contribution Program and the Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets.

Participant of the Program

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

The members of the ERS include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Article 1-104 and 1-105). Employees include those in the following categories:

- Police of Puerto Rico,
- Firefighters of Puerto Rico,
- Elective officers of the People of Puerto Rico and the employees of the Legislature,
- Officers and employees of the Government of Puerto Rico,
- Officers and employees of public enterprises,
- Officers and employees, including mayors, of the municipalities, and
- Irregular personnel fulfilling the requirements of regular employee.

Membership in the ERS is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Comptroller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act No. 112 of 2004).

As of July 1, 2013, every employee who is a participant of the ERS, 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 ERS, shall become part of the Defined Contribution Hybrid Program.

continue

18. RETIREMENT PLANS – continuation

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, based on the contributions made since the date said annuitant returned to service until his/her separation from it.

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

(1) Creditable Service

(a) *Creditable Service for Act No. 447 members* – the years and months for plan participation, during which contributions have been made, beginning on the later of date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and days	½ year
5 months and 15 days to 8 months and days	¾ year
8 months and 15 days to 12 months	1 year

Note: All the days must be during the same month.

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

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continue

18. RETIREMENT PLANS – continuation

(b) *Creditable Service for Act No. 1 members* – the years and completed months of plan participation, during which contributions have been made, beginning on date of hire and ending on date of separation from service (Article 1-106 and 2-109). For purposes of calculating Creditable Service, the following schedule shall apply:

Service During a Fiscal Year	Creditable Service Earned
Less than 3 months	None
3 to 5 months	½ year
6 to 8 months	¾ year
9 months or more	1 year

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the ERS. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation (Article 1-106). Creditable Service also includes purchased service, if any (Article 1-106).

(2) Service Retirements

(a) *Eligibility for Act No. 447 Members* – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

continue

18. RETIREMENT PLANS – continuation

(b) *Eligibility for Act No. 1 Members* – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

(c) *Eligibility for System 2000 Members* – members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

(d) *Eligibility for Members Hired after June 30, 2013* – attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

(3) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No, 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it shall be paid as a lump sum instead of as an annuity.

(a) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

continue

18. RETIREMENT PLANS – continuation

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation, if the member was under age 55 as of June 30, 2013 or 60% of average compensation, if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(b) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determine based on the average compensation for Act No. 1 member, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

continue

18. RETIREMENT PLANS – continuation

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, pus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

(c) *Coordination with Social Security Act for Act No. 447 Members* – Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the ERS with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustment at SSRA. At any time, up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the ERS, retroactive to the later of July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan.

(4) Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

(5) Termination Benefits

(a) Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service prior to 5 years of service or if the balance in the hybrid contributions account is $10,000 or less.

Benefit: The benefit equals a lump sum payment of the balance in the hybrid contribution account as of the date of the permanent separation of service.

continue

18. RETIREMENT PLANS – continuation

(b) Deferred Retirement

Eligibility: A member is eligible upon termination of service with 5 or more years of service (10 years of credited service for Act No. 447 and Act No. 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the accumulated contributions and the hybrid contribution account.

Benefit: An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013.

(6) Death Benefits

(a) Pre-Retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Spouse's Benefit: 50% of the participant's compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit: 50% of the participant's compensation at date of death, payable as an annuity, and allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a nondisabled child not pursuing studies, and until age 25 for a nondisabled child who is pursuing studies.

Benefit if No Spouse or Children: The parents of the member shall each receive 50% of the participant's compensation at date of death, payable as an annuity for life.

Post-death Increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years.

The cost of these benefits is paid by the Commonwealth's General Fund.

continue

18. RETIREMENT PLANS – continuation

(c) Post-Retirement Death Benefit for Members who Retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: The benefit is as follows (Act No. 105, as amended by Act No. 4):

(i) For those married or with dependent children at the time of death, the annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan – 30% prior to January 1, 2004) of the retirement benefit payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for nondisabled children. If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of accumulated contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the member's estate. In no case, shall the benefit be less than $1,000. Either the Commonwealth's General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the accumulated contributions less the lifetime annual income paid and (2) $1,000. The ERS pays for the rest.

(d) Post-Retirement Death Benefit for Members who began receiving a monthly benefit after to June 30, 2013

Eligibility: Any retiree or disabled member who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the hybrid contribution account, plus the accumulated contributions for Act No. 447 and Act No. 1 members, at the time of retirement over the total annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the member's estate.

(e) Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits

continue

18. RETIREMENT PLANS – continuation

(7) Disability Benefits

(a) Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the hybrid contribution account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act No. 447 and Act No. 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

(b) High-Risk Death Benefit under Act No. 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who disabled in the line of work due to reasons specified in Act No. 127 of 1958, as amended.

Benefit: 80% (100% for Act No. 447 members) of compensation as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), nondisabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years (Act No. 127 of 1958, as amended). The cost of these benefits is paid by the Commonwealth's General Fund.

(c) Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

(d) 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 2015-2016 the disability insurance amounted to $57,082.

continue

18. RETIREMENT PLANS – continuation

(8) Special Benefits

(a) Minimum Benefits

(i) Past Ad hoc Increases

The Legislature, from time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983. The benefits are paid 50% by the Commonwealth's General Fund and 50% by the ERS.

(ii) Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3)

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is $500 per month effective July 1, 2013 ($400 per month effective July 1, 2007 and $300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the ERS for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(iii) Coordination Plan Minimum Benefit

A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

(b) Cost-of-Living Adjustments (COLA) to Pension Benefits

The Legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act No. 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month. The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the ERS. All other COLAs granted in 1995 and later shall be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

continue

18. RETIREMENT PLANS – continuation

(c) Special "Bonus" Benefits

(i) Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of $200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(ii) Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. This amount is prorated if there are multiple beneficiaries. This benefit is paid from the supplemental contributions received from the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(9) Contributions

(a) Member Contributions

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid account.

Prior to July 1, 2013, contributions by Act No. 447 members selecting the Coordination Plan were 5.775% of compensation up to $6,600 plus 8.275% of compensation in excess of $6,600. Contributions by all other members were 8.275% of compensation. System 2000 members may also have voluntary contribution of up to 1.725% of compensation prior to July 1, 2013.

(b) Employer Contributions (Article 2-116, as Amended by Act No. 116 of 2010 and Act No. 3)

Prior to July 1, 2011, employer contributions were 9.275% of compensation. 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.

continue

18. RETIREMENT PLANS – continuation

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

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

(c) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)

Effective July 1, 2013, the ERS will receive a supplemental contribution of $2,000 each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefiting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

(d) Additional Uniform Contribution (Act No. 32, as Amended)

The additional uniform contribution (AUC) will be certified by the external actuary of the ERS each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the ERS, during any subsequent fiscal year, to fall below $1 billion. The AUC is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The AUC determined for fiscal years 2014, 2015 and 2016 was $120 million. The AUC determined for fiscal year 2016-2017 is $596 million, payable at the end of the fiscal year.

continue

18. RETIREMENT PLANS – continuation

(10) Service Purchase

Prior to July 1, 2013, active members with eligible service from prior employment may elect to purchase service in ERS. The cost of the purchase is calculated by applying the ERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 9.5% per year (6% prior to April 4, 2013) until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Act No. 10 of 1992, Act No. 14 of 1981, Act No. 122 of 2000, Act Nos. 203 and 33 of 2007). Effective July 1, 2013, only veterans may purchase service for time spent under military service are permitted to make voluntary contributions to the Defined Contribution Hybrid Contribution Account during the years of military leave.

(11) Early Retirement Programs

The Municipality implemented an early retirement program for its employees under the Act No. 224 dated August 9, 2008. The Municipality has already made the initial payment and would reimburse the remaining balance on annuities and other benefits paid by the ERS in four installments on each July 31 starting in 2009 through 2012. The Municipality was at default on the retirement plan payment, so they requested a new payment plan. The ERS Board of Trustees approved a Payment Plan for the debt balance due of the Retirement program for 24 months starting in March 2014.

On July 2, 2010, the Commonwealth Enacted Act No. 70 of 2010 (Act No. 70) establishing a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined. Additional window periods occurred through December 31, 2012. Under Section 4A of Act No. 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth). Under Section 4B of Act No. 70, active members who had at least 15 years of service, but less than 30 years of creditable services, could retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporation for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The ERS will pay the benefit after this time period.

While the General Fund / Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate [(12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporation (currently 10%)] of final salary to the ERS. The employer contribution rate applies applied to final salary increases as under Act No. 116 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C if Act No. 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six months of salary (paid by Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (12.275% for 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the ERS for five years after retirement.

continue

18. RETIREMENT PLANS – continuation

The contribution requirement to the ERS is established by law and is not actuarially determined. The special benefits contributions of approximately $229 million in 2014 mainly represent contributions from the General Fund, public corporation and municipalities for the special benefits identified above granted by special laws. The funding of the special benefits is provided to the ERS through legislative appropriations each July 1 by the General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the special benefits. Deficiencies in legislative appropriations are covered by the ERS's own funds until recovered through future legislative appropriations. Any surplus of legislative appropriations collected over special benefits paid is combined with the assets held in trust for the payment of other pension benefits.

(12) Other Postemployment Benefits (OPEB) – Healthcare Benefits

ERS MIPC is a cost-sharing, multi-employer defined benefit other postemployment benefit plan sponsored by the Commonwealth. ERS MIPC covers a payment of up to $100 per month to the eligible medical insurance plan selected by the member provided the member provided the member retired prior to July 1, 2013 (Act No. 483, as amended by Act No. 3). Substantially all fulltime employees of the Commonwealth's primary government, and certain municipalities of Puerto Rico and certain component units of the Commonwealth not having their own postemployment benefit plan, were covered by the OPEB.

Commonwealth employees became members upon their date of employment. Plan members were eligible for benefits upon reaching the pension benefits retirement ages.

At July 1, 2013, the membership, as adjusted by changes in participants established by Act No. 3, consisted of the following:

Membership	Amount
Retired Members	94,395
Disabled Members	16,649
Total Membership	111,044

The contribution requirement of ERS MIPC is established by Act No. 95 approve on June 29, 1963. This OPEB plan is financed by the Commonwealth on a pay-as-you-go basis. There is no contribution requirement from the plan member during active employment. Retirees contribute the amount of the healthcare insurance premium not covered by the Commonwealth contribution. Thus, these OPEB are 100% unfunded. During the year ended June 30, 2014, OPEB contributions amounted to $102 million.

The funding of the OPEB benefits is provided to the ERS through legislative appropriations each July 1 by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees, and by certain public corporations with own treasuries and municipalities for their former employees. The legislative appropriations are considered estimates of the payments to be made by the ERS for the healthcare benefits throughout the year.

continue

18. RETIREMENT PLANS – continuation

Liquidity Risk and Uncertainties

ERS is a mature retirement system with a significant retiree population. Based on the statutory funding requirements, the annual benefit payments and administrative expenses paid by the ERS were significantly larger than the member and employer contributions made to the ERS. Thus, investment income must have had to be used to cover negative cash flow. If the increasing and additional contributions stipulated by law are not paid in full on an annual basis, the ERS will continue being rapidly defunded and gross assets will be exhausted. If measures are not taken to significantly increase the contributions, the ERS will become insolvent in fiscal year 2018. In addition, annual cash flow estimates for the foreseeable future are presently estimated to be insufficient to cover the ERS's obligations unless other measures are taken.

If the ERS's assets are exhausted it would be operating solely on a "pay-as-you-go" basis, which means that it would be unable to pay benefits that exceed the actual employer and employee contributions received (net of administrative and other expenses), unless the Commonwealth provides the funding required to meet the pay-as-you-go retirement benefits. Additionally, future employers' contributions have been pledged for the payment of debt service, further depletion of the ERS's assets could result in the inability to repay its bond obligations. Consequently, the ERS's funding requirements, together with the funding requirements of JRS and the Puerto Rico System of Annuities and Pensions for Teachers, could have a direct negative effect on the Commonwealth's General Funds, since the Commonwealth is the primary sponsor and is obligated to make contributions to fund each of the ERS.

The Commonwealth and the other participating employers have been facing several fiscal and economic challenges in recent years due, among other factors, to continued budget deficits, a prolonged economic recession, high unemployment, population decline, and high levels of debt and pension obligations. The widening of credit spreads for the Commonwealth's public sector debt, the continued downgrading of the Commonwealth's credit ratings and those of many of its instrumentalities to noninvestment grade categories, and the lowered-than-projected revenues have put further stain on the Commonwealth liquidity and have affected its access to both the capital markets and private sources of financing, as well as the borrowing cost of any such funding.

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 contributions as provided by Act No. 32 of June 25, 2013 (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.

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18. RETIREMENT PLANS – continuation

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32, as amended by Act No. 244 of 2014, which provides for incremental annual contributions (Additional Uniform Contribution) from the Commonwealth's General Fund, public corporations and municipalities beginning in fiscal year 2014 and up to the fiscal year 2033. The AUC determined for fiscal year 2014 was defined as $120.0 million and subsequent annual amounts will be determined annually based on actuarial studies to be performed by the ERS's actuaries as necessary for the ERS's gross assets to remain above $1.0 billion. An appropriation for such AUC of approximately $98 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of the Commonwealth's General Fund revenue shortfall, compared to budget, the Commonwealth made certain adjustments to the fiscal year 2014 budgetary appropriations following the "priority norms" for the disbursement of public funds that apply during any fiscal year in which the resources available to the Commonwealth are insufficient to cover the appropriations approved for such year. These adjustments included the reduction in full of the portion of the Act No. 32 AUC by executive Order 29-2014.

For fiscal year 2015 and 2016, the certification of the AUC was not available at least 120 days before the commencement of the applicable fiscal year. ACT No. 32, as amended, provides that in this situation, the AUC for fiscal year will be the AUC applicable for the preceding year. Thus, the AUC determined for fiscal years 2015 and 2016 was $120 million.

Timely payment of the AUC is a critical component of the reform in order for the ERS to be able to make payments as they come due without depleting all its assets first. However, as a result of continued budget deficits in fiscal years 2014 and 2015, the Commonwealth and other participating employers have been unable to make the AUC required in full for these fiscal years (other than $34.4 million paid by municipalities and public corporations for fiscal year 2014 and $22.7 million paid by the Commonwealth and $37.1 million paid by public corporations and municipalities for fiscal year 2015). In February 2016, the ERS's actuaries recalculated the AUC for fiscal year 2017 and subsequent years. Based on certain assumptions (which do not account for any fiscal adjustment that the Commonwealth ma undertake to address its fiscal challenges), the projected AUC for fiscal year 2017 and subsequent years was approximately $596.0 million (of which approximately $370.0 million corresponds to the Commonwealth, to be funded from its General Fund, and the remaining portion corresponds to the participating public corporations and municipalities).

Remediation Plan

To improve the liquidity and solvency of the ERS, on July 6, 2011, the Commonwealth enacted Act No. 116 increasing the employers' contribution rate from 9.275% to 10.275% of employee compensation for the 2011-2012 fiscal year, 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.

On April 4, 2013, the Legislature enacted Act No. 3 which amended the Act No. 447. Act No. 1, and Act No. 305. Act No. 3 reformed the ERS by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefits program, replacing most of the defined benefit elements with a defined contribution structure. The reform intended to address the Commonwealth's future cash flow needs and "pay-as-you-go" requirement, while recognizing that the ERS would become insolvent. As such, the reform was intended to provide enough cash for the ERS to be able to pay benefits (as amended through the reform) and debt service on the pension obligation bonds, while maintaining projected ERS gross assets at no less than $1.0 billion at all times.

continue

18. RETIREMENT PLANS – continuation

To achieve this goal, the reform contemplated that the Commonwealth and other participating employers would have to provide additional annual funding above the statutorily prescribed contributions as required by Act No. 32. As a long-term plan, it was recognized that constant monitoring would be required to ensure that the ERS remained on track to meet the reform's goals. The receipt of the additional uniform contribution of Act No. 32 is critical to the ERS's ability to make payments as they become due.

Act No. 3 established a contribution hybrid program (the Contribution Hybrid Program) like the System 2000 program that will eventually result in all active and retired members participating in a member-funded hybrid program. Act No. 3 froze all retirement benefits accrued through June 30, 2013 under Act No. 447 and Act No. 1 (defined benefit program), and thereafter, all future benefits will accrue under the defined contribution formula used for the System 2000 program participants. Ceasing future defined benefit accruals under Act No. 447 and Act No. 1 and converting to a member-funded hybrid plan will result in lower benefit payments as these tiers wind down, and will make all future employer contributions available to pay benefits and bonds payable debt service. Act No.3 incorporate the provisions of the Defined Contribution Hybrid Program and System 2000 in Chapter 5 of the ERS.

Participants in the defined benefit program who as of June 30, 2013 were entitled to retire and receive a pension, may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contribution Hybrid Program. Participants who as of June 30, 2013 were not entitled to retire can retire depending on the new age limits defined by the Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contribution Hybrid Program.

Participants in the System 2000 program who as of June 30, 2013 had reached the age of 60 may retire on any later date and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contribution Hybrid Program. Participants in the System 2000 program who as of June 30, 2013 had not reached the age of 60 can retire depending on the new age limits defined by the Contribution Hybrid Program and will receive the annuity corresponding to their retirement program, as well as the annuity accrued under the Contribution Hybrid Program.

In addition, Act No. 3 amended the provisions of the different benefit structures under the ERS including, but not limited to, the following:

- Retirement age – The retirement age for the frozen accrued benefits of Act No. 447 is gradually increased from age 58 to age 61, and from age 60 to age 65 for System 2000 program members, which results in a delay in cash outflow and thus lower cumulative future benefit payments to these members. Reduced early retirement was eliminated for Act No. 1, which also results in a delay in cash outflow. The retirement age for new employees was increased to age 67.

- Member contributions – The prior member contribution rate of 8.275% (varying for some members) is increased to 10% of pay. While this will result in higher hybrid program benefits in the future, it will provide more assets in the near term that can support current benefit payments and bonds payable debt service.

continue

18. RETIREMENT PLANS – continuation

- Mandated annuitization – System 2000 program notional accounts were available as lump sum payments at termination/retirement. With a full cohort of active System 2000 program members completing careers at roughly the same time that bonds payable principal payments begin, lump sum payments would have had a deleterious effect on the System's assets. Act No. 3 hybrid accounts, which include the System 2000 program accounts, are subject to mandatory annuitization, which will benefit the System on a cash flow basis by stretching out payments over time, thus providing the System "catch-up" time. The ERS has the authority for determining the annuitization factors and for updating the factors in future years.

- Survivor benefits – Act No. 447 and Act No. 1 offered survivor benefits at no cost to the retiree. For future retirees, the defined benefit portion of the Act No. 447 or Act No. 1 frozen annuity and the hybrid program Act No. 3 annuity with a survivor benefit, resulting in lower future cash outflow.

- The occupational death benefit and the one year of salary death benefit were eliminated for Act No. 447 and Act No. 1 members, resulting in lower future cash outflow.

- Disability benefits, other than those provided under Law No. 127, were eliminated, resulting in lower future cash outflow. (A member who becomes disabled may receive their hybrid account balance and their accrued benefit if applicable under Act No. 447 or Act No. 1.)

- Special law benefits are reduced for current retirees and eliminated for future retirees. The Christmas bonus payable to current retirees was reduced from $600 to $200. The summer bonus was eliminated. The employers will continue making contributions to the ERS as if all special law benefits were still in place for current and future Act No. 447 and Act No. 1 retirees, which will result in additional cash that can be used for benefit payments and bonds payable debt service.

- Minimum benefits – The minimum pension payable was increase from $400 to $500 per month for current retirees only.

- Merit Annuity – The "Merit Annuity" available to participants who joined the ERS prior to April 1, 1990 was eliminated.

Other measures taken to improve the liquidity of the ERS include, among others, 1) revision of the personal loan policy by limiting personal and cultural loan amounts to $5,000 each, from $15,000 and $10,000, respectively; and 2) the receipt of a special contribution from the Commonwealth that was invested in junior subordinated capital appreciation bonds issued by the Puerto Rico Sales Tax Financing Corporation (the COFINA Bonds).

The successful implementation of these measures cannot be assured, as it is dependent upon future events and circumstances whose outcome cannot be anticipated.

continue

18. RETIREMENT PLANS – continuation

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

(1) Net Pension Liability

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 was measured as of June 30, 2015, 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, 2014 rolled forward to June 30, 2015 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. As June 30, 2016, the Municipality's used the proportional share of 0.65806%, which was the same as of June 30, 2015, because at the date of the report the ERS do not produce the information required by GASB No. 68. The Municipality's proportionate share of the Net Pension Liability used was as follows:

Proportion - June 30, 2014	0.65806%
Proportion - June 30, 2015	0.65806%
Change - Increase (Decrease)	0.000000%

At June 30, 2015, the Municipality's proportionate share of the Net Pension Liability for each plan was as follows:

	Proportionate Share of Net Pension Liabiliy
Act Number 447	$ 168,581,684
Act Number 1	33,102,202
Act Number 305	17,106,554
Total Net Pension Liability	$ 218,790,440

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18. RETIREMENT PLANS – continuation

As June 30, 2016, the Municipality reported $218,790,440 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

Net Pension Liability	June 30, 2016 Total	June 30, 2016 Proportional Share (0.65806%)
Total Pension Liability	$ 32,669,162,000	$ 214,982,687
Fiduciary Net Position (Deficit)	(578,633,000)	(3,807,752)
Net Pension Liability	$ 33,247,795,000	$ 218,790,440
Plan's Fiduciary Net Position (Deficit) of Total Pension Liability	-1.77%	-1.77%
Covered Payroll	$ 3,319,280,000	$ 27,039,464
Net Pension Liability as a % of Covered Payroll	1001.66%	809.15%

(2) Pension Expense

For the fiscal year ended June 30, 2016, the Municipality recognized pension expense of $6,633,353. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

(3) Deferred Outflows/Inflow of Resources

As of June 30, 2016, 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	$ 11,426,811	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	18,301,293	-
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	(3,094,188)	- 1,584,668
Total	$ 26,633,916	$ 1,584,668

continue

18. RETIREMENT PLANS – continuation

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. $26,633,916 reported as deferred outflows of resources related to pensions resulting from Municipality contributions after 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 in pension expense as follows:

Year Ended June 30,		Amount
2017	$	(5,009,850)
2018		(5,009,850)
2019		(5,009,850)
2020		(5,009,850)
2021		(5,009,850)
Thereafter		-
Total	$	(25,049,250)

Actuarial Methods and Assumptions

The census data collection date has changed from end-of-year to beginning-of-year. For this switchover year, the June 30, 2014 census data used in the prior valuation is also used as the July 1, 2014 census data for the current valuation. The liability results as of June 30, 2015, were based on projecting the ERS obligations determined as of the census data collection date of July 1, 2014 for one year, using roll-forward methods and assuming no liability gains or losses.

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.

For purposes of converting the Defined Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the June 30, 2014 actuarial valuation. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

continue

18. RETIREMENT PLANS – continuation

The actuarial valuation used the following actuarial assumptions:

Actuarial Assumptions:	
Inflation	2.5%
Investment Rate of Return	6.55%, Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	3.80%, as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	3.80%
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.

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.

Most other demographic assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the Board during December 2013 and the actuary's capital market assumptions as of June 30, 2014. The long-term expected rate of return on pension benefits investments of 6.75% as of June 30, 2014 was slightly higher than the debt service of the senior pension funding bonds payable which range from 5.85% to 6.55%.

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18. RETIREMENT PLANS – continuation

The pension plan's policy regarding allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the ERS's financial condition for the benefits provided through the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2014:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic Equity	25%	6.8%
International Equity	10%	7.6%
Fixed Income	64%	3.9%
Cash	1%	2.9%
Total	100%	

The long-term expected rate of return on pension benefits 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. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

ERS net position 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.

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.

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 is 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.

continue

18. RETIREMENT PLANS – continuation

The Total Pension Liability was determined by an actuarial valuation as of July 1, 2014, calculated based on the discount rate and actuarial assumptions, and was then projected forward to June 30, 2015. There have been no significant changes between the valuation date of July 1, 2014 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, 2014.

Discount Rate

The asset basis for the date of depletion projection is the ERS's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, plus deferred inflows of resources). On this basis, the ERS's fiduciary net position was expected to be exhausted in the fiscal year 2015.

The discount rate used to measure the total pension liability was 3.80%. 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 County will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS'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 tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all period of projected benefits payments to determine the total pension liability. The discount rate at June 30, 2014 and 2015, was as follow:

	June 30, 2014	June 30, 2015
Discount Rate	4.29%	3.80%
Long-term expected rate of return net of investment expense	6.75%	6.55%
Municipal bond rate *	4.29%	3.80%
* Bond Buyer General Obligation 20-Bond Municipal Bond Index		

The date of depletion projection of the actuarial report does not include any amounts from the AUC required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and if their financial condition does not improve in the near term.

The June 30, 2015, actuarial valuation reflects an increase of $3,000 million in the total pension liability as a result of the changes in assumptions related to the change in the discount rate as required by GASB Statement No. 67 and an increase of $100 million in the total pension liability as a result of differences between expected and actual experience.

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.

continue

18. RETIREMENT PLANS – continuation

Changes in Net Pension Liability	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Proportional Share
Balance as of June 30, 2014	$ 30,219,517,000	$ 80,666,000	$ 30,138,851,000	$ 198,331,723
Changes for the year:				
Service Cost	425,564,000	-	425,564,000	2,800,466
Interest on Total Pension Liability	1,279,556,000	-	1,279,556,000	8,420,246
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) or Losses	(463,898,000)	-	(463,898,000)	(3,052,727)
Effect of Assumptions Changes or Inputs	2,781,098,000	-	2,781,098,000	18,301,293
Benefits Payments	(1,572,675,000)	(1,572,675,000)	-	-
Administrative Expenses	-	(25,744,000)	25,744,000	169,411
Other Expenses	-	(13,242,000)	13,242,000	87,140
Costs of Bonds	-	(194,400,000)	194,400,000	1,279,269
Member Contributions	-	339,650,000	(339,650,000)	(2,235,101)
Net Investment Income	-	70,143,000	(70,143,000)	(461,583)
Employer Contributions	-	736,969,000	(736,969,000)	(4,849,698)
Balance as of June 30, 2015	**$ 32,669,162,000**	**$ (578,633,000)**	**$ 33,247,795,000**	**$ 218,790,440**

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 February 2018. 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 67 and 68 calculations through at least the 2017-2018 fiscal year. ERS will continue to check the materiality of the difference in calculation until we have changed our methodology.

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continue

18. RETIREMENT PLANS – continuation

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

	1% Decrese 2.80%	Current Discount Rate 3.80%	1% Increse 4.80%
Total Pension Liability	$ 245,694,854	$ 214,982,687	$ 189,818,953
Fiduciary Net Position (Deficit)	(3,807,752)	(3,807,752)	(3,807,752)
Net Pension Liability	**$ 249,502,607**	**$ 218,790,440**	**$ 193,626,706**

Pension Plan Fiduciary Net Position

As per June 30, 2015 Actuarial Valuation Report issued on August 31, 2016, the Actuaries state: **"PRGERS net assets have been exhausted in the 2014-2015 fiscal year. If the increasing Law 116 employer contributions, the Supplementary Contribution under Act 3, and the Additional Uniform Contribution under Act 32 (as amended by Act 244) are not paid in full on an annual basis, PRGERS will continue being rapidly disfunded and gross assets will be exhausted."**

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.

B. Pension Plan of Defined Contributions of the Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan

Effective January 1, 2002, the Municipality created a retirement plan Head Start Program of the Autonomous Municipality of Caguas Money Purchase Plan (the Plan) for all employees of whose salaries were funded with the Head Start Program and which have at least one year of service and are age twenty-one or older. The Plan is part of the Popular Master Defined Contribution Retirement. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA) and Sections 1081.01 (a) of the Puerto Rico Internal Revenue Code of 2011, as amended. Popular Bank of Puerto Rico serves as the Plan Trustee.

The Municipality is required to contribute three percent (3%) of the employees' annual compensation. The Municipality complied with this required contribution percentage for the current and past two years. Participants may contribute based on after tax contributions amounts representing up to ten percent (10%) of the aggregate compensation paid to the employee, excluding the Christmas Bonus.

continue

18. RETIREMENT PLANS – continuation

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting is based on years of continuous service. At June 30, 2014 the Plan has 400 active participants. The participant vesting schedule on such portion of their accounts is described below:

Completed years of service	Vested percent
Less than 3 years	0%
At least 3 years	20%
At least 4 years	40%
At least 5 years	60%
At least 6 years	80%
At least 7 years	100%

The vesting provisions consider years of service before the employer established this Plan.

On termination of service due to death, disability or retirement, a participant or beneficiary may elect to receive a lump-sum amount equal to the value of the participants vested interest in his/her account, or maintain the funds in the Plan. Also, ten years' annuities are allowed under the plan. The normal retirement age is the latter of the date a participant attains his 65th birthday or the fifth anniversary of the first day of the plan year in which he/she commenced participation in the Plan. Early retirement distributions are not permitted. Under the provisions of the Plan, participants are not permitted to withdraw any amount contributed by the employer from the plan, unless separated from employment.

Total contributions to the Plan for fiscal year ended December 31, 2015 (the last available financial information) were $194,222 (Sponsor) and benefits paid were $144,200. Investment revenues were $62,871 and net appreciation in fair value of investments were $11,257, for a net increase in Plan Assets of $50,202. As of December 31, 2015 the Net Fund Assets of the Plan is $2,465,142.

Additional information on the Plan is provided in its financial statements for the year ended December 31, 2014, a copy of which can be obtained from in this report or requests for additional information should be directed to: Autonomous Municipality of Caguas, Office of the Mayor, P.O. Box 907, Caguas, Puerto Rico, 00726-0907, or http://www.caguas.gov.pr.

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19. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance
Capital Projects Fund	"Complejo Recreo Deportivo del Sureste"	$ 4,726,616	Restricted for Building and Facilities
	Water Distribution System of "Bo. Tomas de Castro"	894,444	Restricted to Infrastructure Improvement
	Water and Sewer System of "Quebrada Villa Nueva"	283,122	Assigned for Infrastructure Improvement
	Construction of "Hacienda Ramonita & Los Cubanos"	56,582	Restricted for Building and Facilities
	Total	$ 5,960,764	

Operating Leases

The Municipality leases various properties and equipment under operating lease agreements, which generally have terms of one year or less and are automatically renewed if sufficient funds are available. Lease agreements covering periods in excess of one-year are cancelable at the Municipality's option upon 30 days written notice to the lesser. Expenditures for the year ended June 30, 2016 amounted to approximately $480,772.

Future operating lease commitments are scheduled as follows:

Operating Leases Fiscal Year	Amount
2017	$ 254,719
2018	252,415
2019	115,627
2020	110,763
2021	11,876
Total	$ 745,400

Solid Waste Disposal Contract

The Municipality formalized a contract for the recollection and disposal and management of solid waste with a private entity (the Company). The original contract was amended effective July 1, 2014 for the following services and is due on December 31, 2021. Such contract requires the Municipality to pay the Company $11.50 per unit served. The contract provides for a minimum of 45,500 units served. Also, the fee paid to the Company will increase annually by five percent (5.0%) until December 31, 2021. Vegetable material requires the Municipality to pay the Company $9.99 per cubic yard with an annual increase of two-point five percent (2.5%).

continue

19. COMMITMENTS – continuation

In addition, the Municipality is agreed to pay an additional $32.00 per tons of solid waste that the Municipality transports and deposits in the Company's recollection center for processing. The fee is also subject to an annual increase of two-point five percent (2.5%). The Municipality is agreed to pay an additional $25.00 per tons of solid waste that the Municipality transports and deposits directly in landfill facilities by the Municipality. The fee is also subject to an annual increase of two-point five percent (2.5%).

The Municipality received royalty of $2.21 per tons for direct private collection in the recollection facilities. The royalty is also subject to an annual increase of three percent (3%). The Company also should collect recyclable material in 28,561 units for $3.24 per unit. The fee is also subject to an increase to $3.33 in fiscal year 2018, $3.43 in fiscal year 2020, and $3.54 in fiscal year 2021.

Expenditures for the year ended June 30, 2016 for this service under the terms of this contract amounts to approximately $8.3 million.

Future commitments under the terms of this contract are estimated as follows:

Solid Waste Disposal Contract

Fiscal Year	Amount
2017	$ 8,739,362
2018	8,739,362
2019	8,739,362
2020	8,739,362
2021	8,739,362
Total	$ 43,696,810

Other Commitments

At June 30, 2016, the non-major Special Revenue Funds had a deficit of $1,943,987 as follows: Housing Funds $5,382, Social & Welfare Activities Fund $911,603, and Economic Development Activities Fund $1,027,002. The deficits resulted from the accrual of expenditures without accruing intergovernmental and federal revenues for reimbursement of expenditures. As required by current standards, the Municipality recorded intergovernmental and federal 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.

The Municipality has entered into various agreements to provide professional and consulting services, health services, repairs and maintenance of facilities, marketing and other miscellaneous services to its constituents.

continue

19. COMMITMENTS – continuation

Contributions to Nonprofits Corporations

Act No. 137 of August 9th, 2002, amended Article 17.001 and added Article 17.016 to the 1991 Autonomous Municipalities Law No. 81 of the Commonwealth of Puerto Rico. This amendment authorizes Municipalities "to be part of, participate, support and sponsor nonprofit organizations under the General Law of Corporations of 1995, as amended, and as long as it is organized to promote economic and cultural development or social improvement of a municipality or region of which the municipality is part of and the corporation counts with the participation and engagement of, in addition of the municipalities, the different sectors composed of higher level educational institutions and industrial and commercial enterprises, including associations grouping businesses and industries. Municipalities' participation on the Board of Directors cannot exceed 1/3 of the total members".

Under this Article, the Autonomous Municipality of Caguas, participates in various forms with (1) Corporación de Bellas Artes de Caguas (COBAC); (2) Corporación de Salud Aseguradora por Nuestra Organización Solidaria, Inc. (SANOS); (3) Corporación de Conservación Etnoecológica Criolla, Inc. (CCECI); (4) Iniciativa Tecnológica Centro-Oriental, Inc. (INTECO); (5) Banco de Desarrollo Centro Oriental, Inc. (BADECO); (6) Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC); and (7) Corporation for Caguas City Development (CODECCA), Inc.

On October 8, 2004 representatives of the Municipality and COBAC signed a 15-year lease contract, transferring the operations of the Fine Arts Center (FAC) to COBAC effective July 1, 2004 for a $1,000 annual rental fee payable to the Municipality. In addition, the Municipality is scheduled to make annual contributions for 5 years at par with the commitments that each representative on the Board has agreed to contribute. Subsequently, COBAC would obtain and provide the financial resources necessary for its operations from resources other than the Municipality. Finally, the Municipality's representation on the Board of Directors is 4 out of 17 members, or 24% of the voting power.

On July 1, 2006 representatives of the Municipality and SANOS signed a 5-year lease contract for the facilities where SANOS is currently located for a $1 annual fee payable to the Municipality. More recently, during the fiscal year 2015-2016 the Municipality contributed $180,000 to SANOS for education and drug prevention services.

On April 18, 2007 representatives of the Municipality and CCECI signed a 10-year lease contract for the land and facilities comprising the Caguas Botanical and Cultural Garden for an annual fee of $1,000 effective April 18, 2007. The Municipality agreed to contribute (1) operation funds for $500,000 for each fiscal year 2007-2008 and 2008-2009; $350,000 for fiscal years 2009-2010 and 2010-2011; $350,000 for fiscal year 2011-2012; (2) payment of utilities corresponding to the land and facilities included in the contract; (3) payment of the applicable insurance policies as the owner of the land and facilities; and (4) remaining funds assigned to the development of the Garden in the various dependencies/departments within the Municipality until June 30, 2007. During the fiscal year 2015-2016, the Municipality made contributions to CCECI for a total of $404,634 to cover operating expenses. In addition, CCECI entered in a loan agreement with BADECO in the amount of $100,000.

continue

19. COMMITMENTS – continuation

On September 3, 2003 representatives of the Caguas and other Municipalities signed a contractual agreement with INTECO to contribute funds; property; social, human, physical and technological capital from time to time. After the initial contribution, each Municipality would contribute approximately $1 per person annually according to the most recent Census available. The Municipality of Caguas and INTECO have and will enter into contractual agreements for specific projects from time to time. Finally, the Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. During fiscal year, the Municipality contributed $1,150,098 to cover operating expenses.

On July 1st, 2010, Banco de Desarrollo Centro Oriental, Inc. (BADECO) came to its existence as the only Regional Community Bank in Puerto Rico. BADECO is a nonprofit organization created and funded by the Autonomous Municipality of Caguas (MAC) as a spinoff of what was known for 27 years as the Community Development Bank of Caguas.

Out of this affiliation, BADECO administers for the MAC the loan programs that were not able to be transferred due to their nature of their funding, which came from Federal Government agencies, such as business loan fund granted by the Economic Development Administration (EDA) and the Energy Efficiency Loan fund for home owners granted by the Federal Department of Energy (DOE). BADECO reports to the MAC the programs performance and holds all the documentation regarding such programs. These programs are audited yearly by the MAC and are also open to audit procedures for the funding agencies.

On March 26, 2012 representation of Municipality and Board of Directors signed a contractual agreement where the Municipality authorized Centro Criollo de Ciencia y Tecnología del Caribe, Inc. (C3TEC) to manage and operate such property. C3TEC is an interactive educational center intended to awaken the curiosity and stimulate interest in Science among children from the elementary level onward. The Municipality's representation on the Board of Directors does not exceed the 1/3 of the total members. As part of the agreement, during fiscal year 2015-2016 the Municipality contribution to C3TEC was $400,000 to cover operating expenses.

On September 24, 2013 representatives of the Municipality and of Integral Service Municipal Alliance (AMSI by Spanish acronyms) signed a one year contract to contribute funds to cover the rent expense of AMSI for its headquarter offices located in the Municipality of Caguas. This entity was organized under the laws of Puerto Rico over 18 years ago, with the intent of providing services related to the search of employment contributing to a strengthened industry and a workforce that grows. During fiscal year 2015-2016, the Municipality contributed $250,000 to AMSI to cover rent expenses.

Housing and Rental Contracts

The Section 8 Housing Choice Voucher Program (HCVP) provides rental assistance to help very low income families afford decent, safe, and sanitary rental housing. The Municipality as a local Public Housing Agency (PHA) is authorized under Federal and State laws to operate housing programs within an area or jurisdiction. The Municipality, as a PHA accepts the application for rental assistance, selects the applicant for admission, and issues the selected family a voucher confirming the family's eligibility for assistance. The family must then find and lease a dwelling unit suitable to the family's needs and desires in the private rental market. The PHA pays the owner a portion of the rent [a housing assistance payment (HAP)] on behalf of the family.

continue

19. COMMITMENTS – continuation

The subsidy provided by the HCVP is considered a tenant-based subsidy because when an assisted family moves out of a unit leased under the program, the assistance contract with the owner terminates and the family may move to another unit with continued rental assistance (24 CFR Section 982.1).

The US Department of Housing and Urban Development (HUD) enters into annual contributions contracts (ACCs) with PHAs under which HUD provides funds to the PHAs to administer the programs locally. The PHAs enter into HAP contracts with private owners who lease their units to assisted families (24 CFR Section 982.151).

During the fiscal years ended June 30, 2016 the Municipality received HAP's assistance payments in the amount of approximately $7.3 million. No significant changes are expected during the subsequent fiscal year.

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20. COMPONENTS OF FUND BALANCES

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -
Restricted For:						
Commercial and Residential Loans	-	-	-	-	831,620	831,620
Debt Repayments	6	-	18,078,261	-	-	18,078,267
Disaster Recovery	-	-	-	-	1,963	1,963
Drug Prevention Programs	-	-	-	-	11,030	11,030
Economic Development Purposes	-	-	-	-	3,692	3,692
Educational Assisted Programs	-	-	-	-	81,185	81,185
Energy Saving Loans	-	-	-	-	266,481	266,481
Head Start and Elderly Programs	-	-	-	30,012	-	30,012
Health Services	106,897	-	-	-	-	106,897
Housing Assisted Programs	-	-	-	-	1,169,531	1,169,531
Improvement to the City Hall Building	-	116,872	-	-	-	116,872
Improvements to Facilities and Buildings	577,635	-	-	-	958	578,593
Incentivized Voluntary Resignations Program	1,453,709	-	-	-	-	1,453,709
Incubator Program	-	-	-	-	168,157	168,157
Infrastructure Improvements	-	5,878,716	-	-	132,527	6,011,243
Recreational Activities	-	-	-	-	50,096	50,096
Recycling Projects	68,159	-	-	-	-	68,159
Reforestation Initiatives	-	-	-	-	12,885	12,885
Safety and Security Programs	-	-	-	-	162,127	162,127
Social Development Purposes	-	-	-	-	325,937	325,937
Sureste Sport Facility Construction	-	3,889,004	-	-	-	3,889,004
Transit Improvement Programs	-	-	-	-	684	684
Upgrade to Information System	539,780	-	-	-	-	539,780
Total Restricted	**2,746,186**	**9,884,592**	**18,078,261**	**30,012**	**3,218,873**	**33,957,924**
Committed To:						
Disaster Recovery	720,669	-	-	-	-	720,669
Economic Development Purposes	388,175	-	-	-	62,478	450,653
Improvement of Technology Programs	236,804	-	-	-	-	236,804
Improvement to Electrical Infrastructure	546,386	-	-	-	-	546,386
Market Place Activities	380,558	-	-	-	-	380,558
Recreational Activities	123,595	-	-	-	-	123,595
Contributions for Special Projects	3,466,181	-	-	-	78,007	3,544,188
Total Committed	**5,862,368**	**-**	**-**	**-**	**140,485**	**6,002,853**

continue

20. COMPONENTS OF FUND BALANCES – continuation

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assigned						
Economic Development Purposes	33,280	-	-	-	-	33,280
Housing Assisted Programs	672	-	-	-	-	672
Improvement of Building and Facilities	-	454,593	-	-	-	454,593
Infrastructure Improvements	215,023	-	-	-	-	215,023
Payment of legal claims	30	-	-	-	-	30
Purchase and Maintenance of Equipment	80,800	-	-	-	-	80,800
Recreational Activities	282,187	-	-	-	-	282,187
Rentals	22,743	-	-	-	-	22,743
Support to Education	510,587	-	-	-	-	510,587
Utilities	54,473	-	-	-	-	54,473
Building Maintenance	74,219	-	-	-	-	74,219
Computer Software	1,276	-	-	-	-	1,276
Insurance	164,322	-	-	-	-	164,322
Legal Services	91,181	-	-	-	-	91,181
Materials and Supplies	212,415	-	-	-	-	212,415
Payroll Benefits	56,313	-	-	-	-	56,313
Professional Services	291,197	-	-	-	-	291,197
Solid Waste Disposal	7,156	-	-	-	-	7,156
Vehicle Maintenance	11,707	-	-	-	-	11,707
Security Services	169,424	-	-	-	-	169,424
Landscape and Maintenance	371,684	-	-	-	-	371,684
Total Assigned	**2,650,689**	**454,593**	**-**	**-**	**-**	**3,105,282**
Unassigned (Deficit)	**493,306**	**-**	**-**	**(69,395)**	**(1,943,987)**	**(1,520,076)**
Total Fund Balances	**$ 11,752,549**	**$ 10,339,185**	**$ 18,078,261**	**$ (39,383)**	**$ 1,415,371**	**$ 41,545,983**

21. CONTINGENCIES

Litigation

The Municipality is a defendant in legal matters that arise in the ordinary course of the Municipality's activities. With respect to pending and threatened litigation, the Municipality has reported liabilities of $611,853 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

continue

21. CONTINGENCIES – continuation

The amount presented in the total liabilities of the governmental activities in the statement of net position represents the amount estimated as probable liability, which will require future available financial resources for its payment. The Municipality's administration and legal counsel believes that the ultimate liability in excess of amounts provided would not be significant. In addition, the Municipality is a defendant or co-defendant in several legal proceedings, which are in the 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. As a result, the accompanying general-purpose financial statements do not include adjustments, if any, that could result from the resolution of these legal proceedings.

Federal Financial Assistance

The Municipality receives financial assistance from the federal government in the form of grants or entitlements. The Municipality recognizes federal grant revenues when the related grant agreements are approved and notified by the federal agencies by written communication. All grants are subject to financial and compliance audits by the grantor agencies, which could result in requests for reimbursement by the grantor agencies for expenditures, if disallowed under the terms of the grants. These amounts, if any, of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time. The Municipality's administration believes that such disallowances, if any, will not have a material adverse effect on the financial position of the Municipality.

22. HEALTH CARE 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 $7.8 million for the fiscal year ended June 30, 2016.

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23. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position Restatements

For the year ended June 30, 2016, the Municipality adjusted net position for reclassification and other adjustments to capital assets, accounts receivables and payables, and Net Position Liability. The adjustment to Net Pension Liability was made to reflect the prior period costs related to the implementation of the GASB No. 68.

The following schedule reconciles the June 30, 2015 Net Position, as previously reported to Beginning Net Position, as restated, July 1, 2015:

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2015	$ 45,103,797
Implementation of GASB No. 68	(308,048)
Adjustments to Capital Assets	(523,473)
Units Held for Sale	299,542
Recognition of Note Receivable	108,208
Understatement of Accounts Receivable	80,701
Overstatement of Accounts Payable	201,876
Beginning Net Position, as Restated, At July 1, 2015	**$ 44,962,603**

B. Fund Balance Restatements

The following reconciles the June 30, 2015 Fund Balance, as previously reported to Beginning Fund Balance, as restated, July 1, 2015 for the various funds:

	GENERAL FUND	CAPITAL PROJECTS FUND
At June 30, 2015	$ 19,781,150	$ 14,432,103
Understatement of Accounts Receivable	80,701	-
Overstatement of Accounts Payable	-	201,876
Beginning Fund Balance, As Restated, At July 1, 2015	**$ 19,861,851**	**$ 14,633,979**

continue

24. GOING CONCERN – COMMONWEALTH OF PUERTO RICO

The Commonwealth of Puerto Rico (Commonwealth) currently faces a severe fiscal, economic and liquidity crisis, the culmination of many years of significant governmental deficits, a prolonged economic recession (which commenced in 2006), high unemployment, population decline, and high levels of debt and pension obligations. Further stressing the Commonwealth's liquidity is the vulnerability of revenue streams during times of major economic downturns and large health care, pension and debt service costs. As the Commonwealth's tax base, has shrunk and its revenues affected by prevailing economic conditions, health care, pension and debt service costs have become an increasing portion of the General Fund budget, which has resulted in reduced funding available for other essential services, like the municipalities of Puerto Rico which received subsidies from the Commonwealth.

The Commonwealth's very high level of debt and unfunded pension liabilities and the resulting required allocation of revenues to service debt and pension obligations have contributed to significant budget deficits during the past several years, which deficits the Commonwealth has financed, further increasing the amount of its debt. More recently, these matters and the Commonwealth's liquidity constraints, among other factors, have adversely affected its credit ratings and its ability to obtain financing at reasonable interest rates, if at all. As a result, the Commonwealth has relied more heavily on short-term financings and interim loans from GDB, and other instrumentalities of the Commonwealth, which reliance has constrained the liquidity of the Commonwealth in general and GDB in particular, and increased near-term refinancing risk. These factors have also resulted in delays in the repayment by the Commonwealth and its instrumentalities of outstanding GDB lines of credit, which delays have limited GDB's ability to continue providing liquidity to the Commonwealth and have caused GDB to fail to make a principal payment on its debt obligations. These factors are reflected in the deterioration of the Commonwealth's credit ratings. Since June 30, 2014, the principal rating agencies have continued to lower their rating on the general obligation bonds of the Commonwealth, which had already been placed within non-investment grade ratings in February 2014. They also lowered their ratings on the bonds of the PBA and COFINA, and on other bonds of various instrumentalities, including GDB, all of which were lowered multiple notches in the grading levels.

The following activities, funds, and blended component units reflect a net position deficit/fund balance deficit as of June 30, 2014 (expressed in thousands), last audited financial statements:

	Deficit Balance
Primary Government:	
Governmental Activities	$ 50,439,003
General Fund	1,863,885
Lotteries Fund	96,623
PR Medical Services Administration Fund	302,326

The Commonwealth's Governmental Activities show a net position deficit of approximately $50.4 billion as of June 30, 2014. The net deficit is attributable to the accumulated effect of over a decade of operating expenses exceeding program and general revenues, an increase in the cost of funding the Retirement Systems, and a decrease in estimated revenues, among other factors.

The Commonwealth's General Fund shows a fund balance deficit of approximately $1.9 billion. The fund balance deficit is attributable to operating expenses exceeding revenues.

continue

24. GOING CONCERN – COMMONWEALTH OF PUERTO RICO – continuation

Another aspect of the Commonwealth's operations contributing to the aforementioned deficits and liquidity constraints relates to the Commonwealth's education costs, representing a very high percentage of its budgetary expenditures, and the Commonwealth's challenges in controlling such costs. The budget appropriation for the Commonwealth's Department of Education has historically represented a significant portion of the total General Fund budget.

The Commonwealth, pursuant the Executive Order No. 46 signed on December 1, 2015, retains certain revenues in light of revised revenue estimates for fiscal year 2016 and the Commonwealth's deteriorating liquidity situation. Retained revenues from January to June 2016 were deposited as follows: approximately $143.2 million are deposited in GDB, which funds are subject to the limitations imposed on withdrawals of funds from GDB by Executive Order No. 2016-014, as explained below under section "Going Concern- Discretely Presented Component Units- GDB", and approximately $146.0 million are deposited in a commercial bank. Even with the additional resources provided by the implementation of the claw back, the Commonwealth lacks sufficient resources to meet the entire debt service obligation on the Commonwealth's general obligations bonds due on July 1, 2016 (approximately $1.1 billion).

The Commonwealth's ability to reduce its General Fund deficit and to achieve a balanced budget in future fiscal years depends on a number of factors, some of which are not wholly within its control, including the performance of the Commonwealth's economy, that actual collections of taxes meet the Treasury Department's projections, and the government's ability to reduce and control governmental expenditures, particularly in areas such as education, public safety and healthcare, which represents a significant portion of the budget appropriations of the Commonwealth.

The Commonwealth will not be able to honor all of its obligations as they come due while at the same time providing essential government services. These factors create an uncertainty about the Primary Government's ability to continue as a going concern.

As part of the Fiscal Plan presented by the Governor of Puerto Rico to attend the fiscal crisis, a proposal contemplates a reduction of $350.0 million of subsidies to the municipalities of Puerto Rico. Also, new increase in rates of property tax is contemplated to substitute the reduction in subsidies. The approval of the Fiscal Plan is in the process of evaluation of the Oversight Board. The final impact in the Municipality of decision of the Oversight Board is unknown. (See Note 26 to the Basic Financial Statements.

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA)

The Puerto Rico Oversight, Management, and Economic Stability Act, Pub. Law 114-187 ("PROMESA" or the "Act"), was enacted into law on June 30, 2016. The Senate had passed PROMESA on June 29, 2016, and President Obama signed the Act into law on June 30, 2016, one day before the Commonwealth of Puerto Rico was expected to, and did, default on substantial payment obligations.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

PROMESA Overview

Background

Before PROMESA was enacted, Puerto Rico had passed the Puerto Rico Corporation Debt Enforcement and Recovery Act (the "PR Recovery Act") in 2014. The PR Recovery Act would have enabled certain of Puerto Rico's instrumentalities to adopt a recovery or restructuring plan for their debt. However, in Puerto Rico v. Franklin Cal. Tax-Free Trust, et al., 136 S. Ct. 1938 (2016), the United States Supreme Court held that the PR Recovery Act was invalid because it was preempted by the United States Bankruptcy Code, 11 U.S.C. §§ 101 et seq., as amended (the "Bankruptcy Code"). In sum, the Supreme Court found that the Bankruptcy Code applies to Puerto Rico by including the territory within the definition of a "State" (except in the case of Puerto Rico for purposes of determining whether a State's municipalities may be debtors thereunder). The Court then concluded that the PR Recovery Act was preempted by a provision of the Bankruptcy Code prohibiting States from enacting their own bankruptcy legislation.

PROMESA

Unlike the PR Recovery Act, PROMESA is a federal legislative enactment. The Act is very extensive and the first of its kind in many respects. PROMESA includes a variety of provisions applicable to Puerto Rico, its instrumentalities and their liabilities and operations. The following is a summary of PROMESA, which is intended as a broad overview of primary provisions of PROMESA.

Automatic Stay: Upon the enactment of the Act, a temporary stay or statutory injunction went into effect under Title IV thereof which stays, among other things, all actions and litigation against Puerto Rico and its instrumentalities to collect or enforce liabilities or claims and actions to possess or control their property. The stay under the Act has certain very limited exceptions, but all enforcement actions against Puerto Rico and its instrumentalities, or other actions to control their property, are stayed through the temporary stay period. As provided in the Act, the stay will continue in effect until February 15, 2017 unless it is temporarily extended by the Oversight Board for 75 days or by a Federal District Court for 60 days. The Act's temporary stay goes into effect regardless of whether Puerto Rico or an instrumentality is subject to the Act's debt restructuring provisions discussed below. However, if Puerto Rico or an instrumentality becomes subject to the Act's debt restructuring provisions, then such restructuring provisions will impose an automatic stay during the restructuring proceedings which is substantially similar to the automatic stay under the Bankruptcy Code. PROMESA specifies that actions taken in violation of the temporary stay are void.

Relief from the temporary stay may be granted "for cause," but cause is not defined. The temporary stay is designed to enable Puerto Rico and its instrumentalities to, among other things, assess their respective finances and negotiate potential resolutions with creditors.

The temporary stay under Title IV does not have any exceptions to such stay for pledged "special revenues" or any "safe harbors" to terminate and liquidate financial contracts such as repurchase agreements, swaps or securities contracts. The terms of the temporary stay also preclude parties from exercising remedies, or terminating or modifying contracts, during the term of such stay if the event giving rise to the remedy is nonpayment of principal or interest or the debtor's financial condition or insolvency, notwithstanding what is provided for in the related agreement. The stay also precludes enforcement of defaults under separate contracts, such as defaults under repurchase agreements, guaranteed investment contracts or similar agreements with bond trustees, that would otherwise occur based on the financial condition or insolvency of Puerto Rico or an instrumentality.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Thus, bonds issued by Puerto Rico or its instrumentalities that are secured by special revenues are stayed during this period and parties to financial contracts such as repurchase agreements, swaps or securities contracts (whether with Puerto Rico or an instrumentality as a party, or which would be triggered by the financial condition of Puerto Rico or an instrumentality) are precluded from terminating and liquidating such contracts during this stay.

The Act permits Puerto Rico and its instrumentalities to voluntarily pay liabilities during the period of the temporary stay. Thus, Puerto Rico and its instrumentalities can elect to, but are not required to, make payments on debts or other obligations during the stay period. On January 28, 2017, the Oversight Board extended the stay to May 1, 2017.

Oversight Board: The Act establishes a seven-member Oversight Board, the members of which will be designated by Congress and the President. The Oversight Board is provided with broad authority over Puerto Rico and instrumentalities of Puerto Rico which the Oversight Board designates as "covered" instrumentalities.

The Oversight Board is generally an autonomous body that has broad authority and discretion over Puerto Rico, including the ability to place Puerto Rico itself and a "covered" instrumentality into a debt restructuring proceeding established under the Act, require and approve a fiscal plan, require and approve a budget, oversee operations and implement changes that are necessary to comply with an approved fiscal plan or budget, approve the issuance of debt, hold hearings and issue subpoenas in furtherance of its functions, enter into its own contracts, analyze a territory's pensions and pension liability, approve voluntary settlements with creditors, and become a direct party in litigation against Puerto Rico or an instrumentality. The Oversight Board is, in effect, considered a division of the territory and can hire officers, professionals and legal counsel.

Certain governmental entities in Puerto Rico may be organized as an instrumentality of Puerto Rico, while other entities may be organized as an instrumentality of an instrumentality. For example, certain governmental entities may not be organized as a direct instrumentality of Puerto Rico, but instead as an instrumentality of the Government Development Bank of Puerto Rico. The definition of "territorial instrumentality" in PROMESA provides that such definition includes an instrumentality "of a territory." While not addressed in the express language of PROMESA, it would appear that an instrumentality of an instrumentality, such as an entity organized by the Government Development Bank of Puerto Rico, could also constitute a "territorial instrumentality" under the Act. The definition of "territorial instrumentality" specifies that it is to be construed broadly. In addition, by analogy, the definition of "municipality" in the Bankruptcy Code is similarly defined as an instrumentality "of a State". However, courts have held, and commentators have noted, that a municipality under the Bankruptcy Code includes not only an instrumentality of a State, but also an instrumentality of an instrumentality of a State.

Fiscal Plans and Budgets: A critical component of PROMESA is the requirement of Puerto Rico and covered instrumentalities to develop and maintain a fiscal plan. A fiscal plan for the territory, or any instrumentality designated by the Oversight Board, generally must contain numerous provisions governing the operation of the territory or instrumentality including plans to pay debts, eliminate deficits, maintain essential public services and impose internal controls for fiscal governance and accountability. Each fiscal plan is also required to set forth methods for the territory or instrumentality to access the capital markets. The fiscal plan must be developed by the governor, with oversight by the Oversight Board, and submitted to the Oversight Board for approval (the Oversight Board can submit its own fiscal plan if the governor's fiscal plan is not acceptable in the sole discretion of the Oversight Board). A fiscal plan is also required to comply with Puerto Rico law and to maintain valid liens.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Act further specifies that no budget can be submitted by the territory's governor to its legislature unless the Oversight Board has approved a fiscal plan and the budget is consistent with the fiscal plan (and, similar to fiscal plans, the Oversight Board can submit its own budget if the governor's budget is not acceptable in the sole discretion of the Oversight Board). As noted above, the Oversight Board has authority to monitor and impose changes in operations to require compliance with a fiscal plan and a budget. By extension approved by the Oversight Board, the fiscal plan must be submitted by the Commonwealth as of February 28, 2017, and approved by the Oversight Board by March 15, 2017. The Commonwealth submitted the Fiscal Plan on February 28, 2017 and the Oversight Board certifies the plan with some modifications on March 13, 2017 (see below).

FISCAL PLAN TARGETS AND GUIDELINES

At its November 18, 2016 public meeting here in Puerto Rico, the Oversight Board adopted and communicated publicly a set of five principles to evaluate the Government of Puerto Rico's proposed fiscal plan and to assess the degree to which the plan meets the 14 criteria established by PROMESA. This set of five principles adopted by the Oversight Board and the 14 criteria established by PROMESA regarding the elaboration of the fiscal plan are as follows:

Principles:

Principle 1: The long-term fiscal plan must cover at least the next 10 fiscal years with meaningful progress in the next five and meet the standards set forth in the law (the 14 criteria). The fiscal plan should aim to meet the statutory criteria for the Board to be terminated within 10 years, which includes having adequate market access at reasonable rates and having at least four consecutive years of balanced budgets in accordance with modified accrual accounting standards.

Principle 2: The fiscal plan must work to stabilize the current economic situation, increase the economy's resilience, shore up public finances, support long-term, durable growth, meet basic needs of the citizenry, and restore opportunity for the people of Puerto Rico.

Principle 3: To properly establish an accurate assessment of the fiscal outlook, the base-case scenario within the fiscal plan must assume no additional federal support beyond that which is already established by law (e.g., no Affordable Care Act support extension) and no reliance on unsustainable Act 154 revenues in light of the expiration of said act. Initiatives included in the fiscal plan must be based on applicable laws or specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan.

Principle 4: The plan must include an appropriate mix of structural reform, fiscal adjustment, and debt restructuring. It must be informed by the relevant analytical tools (e.g., a debt sustainability analysis and a detailed economic projection) that assure the Board that the GPR is pursuing a comprehensive approach to address acute economic, budgetary, and demographic challenges.

Principle 5: The fiscal plan must be accompanied by relevant operational plans that show how the GPR will achieve the changes and reforms it proposes

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

CRITERIA FOR FISCAL PLANS

Section 201(b) of PROMESA identifies 14 specific components and objectives a fiscal plan should address. In particular, PROMESA stipulates that the fiscal plan must provide a method to achieve fiscal responsibility and access to the capital markets, in addition to the following:

1. Provide for estimates of revenues and expenditures in conformance with agreed accounting standards and be based on (i) applicable laws; or (ii) specific bills that require enactment in order to reasonably achieve the projections of the fiscal plan;
2. Ensure the funding of essential public services;
3. Provide adequate funding for public pension systems;
4. Provide for the elimination of structural deficits;
5. For fiscal years in which a stay is not effective, provide for a debt burden that is sustainable;
6. Improve fiscal governance, accountability, and internal controls;
7. Enable the achievement of fiscal targets;
8. Create independent forecasts of revenue for the period covered by the fiscal plan;
9. Include a debt sustainability analysis;
10. Provide for capital expenditures and investments necessary to promote economic growth;
11. Adopt appropriate recommendations submitted by the Oversight Board;
12. Include such additional information as the Oversight Board deems necessary;
13. Ensure that assets, funds, or resources of a territorial instrumentality are not loaned to, transferred to, or otherwise used for the benefit of a covered territory or another covered territorial instrumentality of a covered territory, unless permitted; and
14. Respect the relative lawful priorities or lawful liens in the constitution, other laws, or agreements of a covered territory or covered territorial instrumentality in effect prior to the enactment of PROMESA.

The fiscal plan must target a structurally balanced budget by fiscal year 2019 and must articulate a clear path to achieving that goal, while simultaneously pursuing restoration of Puerto Rico's access to the capital markets. In accordance with PROMESA, the fiscal plan must ensure funding of essential government services, provide adequate funding for pension systems and provide capital expenditures and investments necessary to promote economic growth in Puerto Rico. The Oversight Board expect that the fiscal plan will also contain aspirational goals for Puerto Rico and its people—such as returning the Island to a path of economic growth and bettering the lives of its people—as well as the reforms that you will be undertaking to achieve those goals.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

With these guidelines in mind, and focusing on the objective of aligning recurring revenues and expenditures by fiscal year 2019, the Oversight Board below outline a path to achieve this goal with a mix of fiscal initiatives and structural reform proposals. Both components are equally important to foster growth: while fiscal initiatives optimize government revenue and expenditures to create a positive fiscal balance that attracts investment, structural reforms represent longer-term changes that ensure Puerto Rico will regain economic growth for decades to come.

That path requires action in at least five principal areas: 1) revenue enhancements; 2) government right-sizing; efficiency and reduction; 3) reducing health care spending; 4) reducing higher education spending; and 5) pension reform, as summarized in the following table.

$ in billions	**FY 2019 Fiscal Gap**		
Total Baseline Revenues	$15.4		
Total Non-Debt Service Expenses	-19.1		
Primary Balance before Debt Service and Measures	**-3.7**		
Contractual Debt Service	-3.9		
Fiscal Gap	**-7.6**		
Proposed Impact of Fiscal Measures		**Measures ($)**	**% Change to Baseline**
1. Revenue Enhancements		+$1.5	+15%
2. Government Right-sizing, Efficiency and Reduction		+1.5	-22%
3. Reducing Health Care Spending		+1.0	-28%
4. Reducing Higher Education Spending		+0.3	-27%
5. Pension Reform		+0.2	-10%
Impact of Fiscal Measures		**+$4.5**	
Implied Primary Surplus after Measures Available for Debt Service	**$ 0.8**		

Note that even with the immediate successful implementation of these measures the Implied Primary Surplus Available for Debt Service on fiscal year 2019—before taking into account any legacy deficits—is $0.8 billion, which represents only 21% of the contractual debt service of $3.9 billion for fiscal year 2019.

To be totally transparent and with the aim of certifying a fiscal plan as quickly as possible, the Oversight Board lay out below in more detail the set of initiatives and accompanying revenue and savings targets that they expect the Government's fiscal plan to incorporate in order to achieve a structurally balanced budget by fiscal year 2019, which will accomplish PROMESA's objective of balancing the Government's budget. The proposed initiatives also include, however, structural reforms that will set up the Puerto Rican economy for long-term growth.

Follow are recommendations from the Oversight Board based on the collective experience with fiscal crises and analyses conducted by the Oversight Board advisors. To be clear, presenting a plan that can achieve at least this level of savings is a pre-requisite to certifying a fiscal plan. The Government may, however, determine to employ other initiatives and make trade-offs that differ from those described below, but arrive at a similar equilibrium.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

1. Revenue Enhancements

To optimize revenue, the Government should make adjustments to the tax system, improve tax administration and compliance, and right-size government fees, among other revenue enhancement measures. The Government should design a tax regime that:

- Increases compliance through improved audit functions and systematically addresses leakage in the form of non-compliance and evasion.
- Widens the taxable base through a reduction in exemptions.
- Improves property tax collection through reappraisals and property registration efforts (and lowers municipal subsidies accordingly).
- Enhances tax administration through improved training and technology and reduced amnesties.

Together, the Oversight Board expect these initiatives to increase government revenues by $1.5 billion annually by fiscal year 2019. This estimate incorporates the Administration's Act 154 extension and assumes a prospective review of the tax regime for Act 154 companies.

2. Government Right-sizing, Efficiency and Reduction

Today, the Government directly provides and subsidizes many services, including security, transportation, and other activities that could be provided by the private sector. The Government has the opportunity to provide some services more efficiently and eliminate some services entirely, while maintaining an adequate level of essential services. Overall, we have estimated that government right-sizing, efficiency and reduction should generate approximately $1.5 billion annually by fiscal year 2019.

To realize these net savings, the Government should consider taking the following actions:

- Reducing non-personnel expenditure by at least 10% by re-negotiating large contracts, centralizing purchasing, and implementing other procurement best practices, such as clean sheeting and demand management, among others.
- Reducing payroll costs by approximately 30% by substantially eliminating positions and making other reductions to total public labor compensation, including consolidating and significantly reducing non-essential Government services.
- Eliminating municipal and private sector subsidies.
- Right-sizing K-12 education expenditures to the current student population.

The Oversight Board also expressed that based on the Governor executive orders declaring a fiscal emergency, imposing salary freezes, limiting the number of non-career personnel and other labor cost reductions and requiring agencies to build zero-based budgets, it appears that the Administration shares this priority. Indeed, the Oversight Board would require further detail on the projected expenditure savings of the executive orders.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

3. Reducing Health Care Spending

MiSalud is a critical element of Puerto Rico's safety net and is fundamental to the stability of the health care delivery system. However, like other states and many businesses, the Government of Puerto Rico has been challenged by rapidly rising health care costs that far outpace realistic revenue growth. The size of Puerto Rico's fiscal challenge, the loss of federal Medicaid funds and the fundamental imbalance between the growth in health spending and achievable revenue growth, makes significant reductions in health care spending necessary.

In fact, unless additional federal funding is provided after the expiration of funding under the Affordable Care Act, MiSalud will face a ballooning operating deficit expected to reach at least $1.0 billion in 2020. While the Oversight Board supports initiatives to seek additional federal healthcare funding, at this time it wouldn't be a prudent budgetary practice to include in the fiscal plan any such potential additional federal healthcare funding. Therefore, The Oversight Board believes the Government of Puerto Rico should include measures in the fiscal plan that would generate annual savings in health care spending of $1.0 billion by fiscal year 2019, such as implementing:

- A set of initiatives to increase efficiencies, which may include measures to reduce utilization / shift care to a lower cost setting, enhance fraud waste and abuse program, and optimize state-owned provider footprint.

- Additional significant cuts in coverage and benefits through MiSalud, and/or other health spending will be needed to yield additional savings.

4. Reducing Higher Education Spending

The University of Puerto Rico (UPR) is one of the island's most important and revered assets, known for its high-quality programs and commitment to access for all students. However, there is an opportunity to increase tuition and reduce costs without compromising UPR's mission of providing equal access to all students or its quality of education.

The Government can realize approximately $0.3 billion in annual savings from reduced subsidies to UPR by:

- Moving to means-based tuition via higher per class credit prices, complemented by a more extensive use of federal government financial aid.

- Increasing the number of higher-paying international and mainland U.S. students, alumni gifts and federal grant funding.
- Right-sizing faculty and administrative staff, and reducing operating and maintenance costs.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

5. Pension Reform

The Government pension plans should become financially sustainable and any pension reform should protect the neediest and impose larger cuts on those with the largest benefits. Given the deep spending cuts and sacrifices required in all other areas of Government, the Oversight Board considers a reduction of approximately 10% in pension costs and related expenses may be necessary, for savings of $0.2 billion by fiscal year 2019. The Oversight Board encourages a consensual approach to pension reforms which may involve new payment sources and mechanisms. The Oversight Board also proposes the following actions:

- Enroll public safety and education employees in the Social Security system to provide them with diversified sources of retirement income.
- Segregate future contributions in accounts owned by employees to ensure employees' contributions will be available to pay their future retirement.

In addition to the five areas outlined above, it would be important for the fiscal plan to include measures to improve capital efficiency and other structural reforms, as described below.

Improving Capital Efficiency

There is a substantial opportunity to improve Puerto Rico's infrastructure. The World Economic Forum ranks the island's infrastructure quality below a 5.0, which puts it in the bottom third of jurisdictions reviewed, and below jurisdictions with a similar per capita income.

Additional investments to ensure that Puerto Rico's infrastructure catches up to the global median may be required and may be funded by one-time asset sales or similar means.

Specifically, the Oversight Board encourages the government to adopt the following measures:

- Increase focus on priority projects that directly support economic growth in Puerto Rico.
- Improve maintenance and delivery efficiency and optimize capital spending.
- Focus on using Public-Private Partnerships (P3s).

Two of the Governor's new executive orders, establishing an infrastructure state of emergency to accelerate permitting and an interagency committee to coordinate the same, give the Oversight Board confidence that Government are prioritizing infrastructure development. The P3 law to, among other things, allow private entities to propose P3 transactions and allow public employees' retirement systems to invest and participate in P3 agreements, which amendments were recently enacted. Clearly, the Oversight Board are aligned on placing a high priority on infrastructure. The Oversight Board looks forward to working together to identify the best measures to achieve that shared goal.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Structural Reforms

As mentioned earlier, a main objective of the fiscal plan is to create a pro-growth environment in Puerto Rico. In addition to the labor reform that the Administration has already proposed, the Oversight Board wants to highlight two key structural reforms needed to accomplish this goal:

- Energy reform that catalyzes third party investment, accelerates the permitting process and right-sizes power supply to actual trends in power demand.

- Improve ease of doing business in Puerto Rico by optimizing the permitting process and improving coordination with the federal government.

Debt Adjustment: Title III of the Act creates its own provisions under which Puerto Rico itself or an instrumentality selected by the Oversight Board can file a case to reorganize its debts in a plan of adjustment. The Act incorporates by reference numerous provisions of the Bankruptcy Code, including many from Chapter 9 (which governs bankruptcy proceedings of a municipality under the Bankruptcy Code). Based on the incorporation of numerous Bankruptcy Code provisions into PROMESA, a debt adjustment proceeding of Puerto Rico or a covered instrumentality under Title III of PROMESA would also include (like a reorganization proceeding of a municipal debtor under Chapter 9 of the Bankruptcy Code) (i) the imposition of an automatic stay, (ii) the ability of a debtor to generally govern its operations and engage in post-petition financing and (iii) the ability of the debtor to exercise avoidance powers.

Notably, the provisions from the Bankruptcy Code that are incorporated into PROMESA include, among other things, many definitions, Sections 902, 922 and 928, which generally govern pledged "special revenues" and their treatment in a Chapter 9 bankruptcy commenced by a municipality, and Section 926, which generally exempts a municipal debtor's payments on its bonds or notes from constituting an avoidable preference. The special revenue provisions in Sections 902, 922 and 928 of the Bankruptcy Code would, in the Bankruptcy Code context, specify that special revenues pledged to secure a municipal debtor's bonds can continue to be transferred in a manner consistent with the Bankruptcy Code notwithstanding the automatic stay.

In addition to incorporating the Bankruptcy Code's Chapter 9 "special revenue" provisions, the Act also incorporates the Bankruptcy Code's "safe harbors" for certain financial contracts to which the municipal debtor is a party. The safe harbors for specified financial contracts would permit the exercise of a contractual right to terminate and liquidate the contract based on the debt adjustment proceeding, notwithstanding the automatic stay.

The criteria under PROMESA for Puerto Rico or an instrumentality to be eligible to file a debt restructuring proceeding include approval by the Oversight Board and the desire of such entity to affect a plan of adjustment. The Oversight Board, in approving the filing, must certify, among other things, that the entity has engaged in good-faith efforts to enter voluntary agreements to restructure its debts, has an approved fiscal plan and has no "qualifying modification" of its bond debt (as addressed further below based on the collective creditor action provisions of PROMESA). However, unlike the eligibility criteria for municipal debtors under the Bankruptcy Code, PROMESA does not require that an entity seeking to file a debt adjustment proceeding be insolvent.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

The Bankruptcy Code provisions for a federal court to confirm a Chapter 9 plan of adjustment are also generally incorporated into PROMESA, including that the plan be in the best interest of creditors (which is generally viewed in the Bankruptcy Code context as treating creditors at least as, or better than, they would be treated under non-bankruptcy alternatives to a debt restructuring proceeding). In addition to the Bankruptcy Code confirmation standards, however, PROMESA also requires that a plan of adjustment be consistent with PROMESA and the debtor's fiscal plan.

The Oversight Board would continue to govern the territory or covered instrumentality during the debt restructuring proceeding and is the only entity with the authority to submit a plan of adjustment. The reorganization proceeding would be commenced in Federal District Court in Puerto Rico, and such court would oversee the proceeding under PROMESA. The plan of adjustment would be submitted by the Oversight Board to such court for confirmation. The Act permits a jointly administered reorganization proceeding and a joint plan of adjustment to address various affiliates (although affiliates are not substantively consolidated). The Federal Rules of Bankruptcy Procedure would also apply in a debt adjustment proceeding under the Act.

Collective Creditor Action to Modify Bond Terms: The collective creditor action provisions of Title VI of PROMESA are a method to effectuate an overall bond restructuring of Puerto Rico or an instrumentality as a general alternative to the debt adjustment provisions under Title III discussed above. PROMESA includes, in Title VI thereof, provisions to permit the terms of bond obligations to be modified based on the collective action of applicable bondholders, but without 100% consent of all affected bondholders. Modifications to a bond financing can be proposed by the bond issuer (Puerto Rico, or an instrumentality) or by bondholders.

If modifications to bond financings of an issuer are considered, the Oversight Board, in consultation with the bond issuer, will separate similar bond claims into separate pools. Title VI of the Act provides that bonds issued by Puerto Rico or an instrumentality can be modified and become a "qualified modification" binding on all bondholders in the applicable pool of bondholders if (i) holders of at least two-thirds of the pool's principal amount who vote, and holders of at least 50% of the total principal amount outstanding in such pool vote, to approve the modification and (ii) the modification is approved by the Oversight Board. If less than 100% of the related pool of bond obligations does not approve the proposed modification, the modification will not become effective and binding on such holders until a Federal District Court has approved the modification. The collective creditor action provisions appear designed to permit resolution of all bond obligations of Puerto Rico or an instrumentality as bond issuer based generally on negotiated and voluntary agreements with a requisite percentage of bond claims in all related pools.

These provisions, which permit modification of bond terms without 100% holder consent, do not appear to have precedent in municipal bond law. These provisions also operate outside of traditional confirmation standards for a plan of adjustment (such as the "best interest of creditors" test), which could otherwise provide some protection to minority bondholders. Although these provisions appear designed to provide for a resolution of bond claims generally against an issuer, it is unclear how such provisions would be applied, especially if presented to a court for approval.

Additional Provisions: The Act addresses several other economic initiatives, including (i) infrastructure revitalization, (ii) appointment of a revitalization coordinator under the authority of the Oversight Board and (iii) provisions permitting Puerto Rico to temporarily lower the minimum wage of younger workers.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

CERTIFIES FISCAL PLAN FOR PUERTO RICO

On the meeting of March 13, 2017, the Oversight Board certified the Fiscal Plan for the Commonwealth of Puerto Rico submitted, with some modifications, pursuant to PROMESA § 201 (e). The modifications include additional safeguards to ensure that sufficient liquidity and budgetary savings be realized to fund essential services in fiscal year 2018. The plan includes the use of a furlough program and the removal of Christmas bonuses to achieve necessary liquidity and budgetary savings, unless the Board ascertains the Government's compliance with certain conditions later this calendar year 2017.

Amendment No. 1:

The furlough program shall be formulated to achieve $35.0 million to $40.0 million in monthly savings, though 4 days per month for most Executive branch government personnel, and 2 days per month for teachers and frontline personnel at 24-hous institutions, excluding frontline law enforcement personnel.

During fiscal year 2018, the Christmas bonus shall be eliminated, and the furlough program shall take effect on July 1, 2017, unless either or both of the bonus elimination and furlough program are subsequently repealed or decreased on occurrence of the following respective conditions:

1. Furlough Program – July 1, 2017

   If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing measures, as well as a liquidity plan, reasonably expected to generate an additional $200.0 million cash reserve by June 30, 2017, there shall be no furloughs commencing July 1, 2017, with all furloughs for the fiscal year 2018 to commence September 1, 2017 unless fully or partially eliminated in accordance with the criteria below.

2. Furlough Program – September 1, 2017

   If the Oversight Board determines in its sole discretion that the Government has submitted with its proposed budget by April 30, 2017 an implementation plan for its right-sizing measures reasonably expected to generate sufficient savings, there shall be no furlough commencing September 1, 2017.

   If in the Oversight Board sole discretion, the Government's plan is not reasonably expected to generate sufficient savings, then depending on the level of savings the Oversight Board determines is likely to be achieved, the Board shall determine whether the full furlough program commencing September 1, 2017 shall be decreased or eliminated.

3. Christmas Bonus Elimination – September 30, 2017

   If in the Oversight Board sole discretion to be exercised no later than September 30, 2017, the trend of the Commonwealth's personnel costs as of September 1, 2017, indicates sufficient savings have been and will timely be achieved through the Government's right-sizing measures, the Oversight Board shall determine whether the full elimination of the Christmas bonus shall be modified into (a) a partial reduction of the bonus or (b) no elimination of the bonus.

continue

25. PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT (PROMESA) – continuation

Amendment No. 2:

Pension Amendment to the Commonwealth's Proposed Fiscal Plan:

All or virtually all pension fund assets will be depleted before 2022. ERS, TRS, and FRS have combined liabilities at least $50.0 billion and a combined funded ratio below 8%. Despite previous reform efforts, Puerto Rico's pension system have not stabilized. Structural changes are required to ensure long-term stability and restore public confidence in the pension system. Accordingly, the public pension systems must be overhauled through the measures in the Commonwealth's proposed fiscal plan, supplemented to provide for progressively reduced total pension outlays by 10% by fiscal year 2020, to ensure the system can meet its obligations, with protections to ensure that no member is pushed below the federal poverty line as a result of the reductions.

The system overhaul shall be formulated by the Commonwealth and the Board on or before June 30, 2017, and be guided by the following principles:

1. Fund existing pension obligations on a "pay go" basis, liquidating assets to help fund benefits and using general fund revenues to pay benefits owed under previous plans,

2. Enroll all active members and new hires in defined contribution accounts that segregate and protect their contributions to pay for their own future benefits, and:

   a. Offer employees diversified, low-cost "index funds" similar to the federal government's Thrift Savings Plan

   b. Ensure that employees retain the full return on their contributions, without the 20% "tax" currently charged by hybrid plans; and

3. Beginning in 2020, enroll all newly-hired teachers and public safety workers in Social Security, and, to the extent practicable, enroll current teachers and public safety employees under age 40 in Social Security.

26. RECENTLY ADOPTED ACCOUNTING STANDARDS

The provisions of the following Governmental Accounting Standards Board (GASB) Statement have been implemented for the year ended June 30, 2016:

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.

continue

26. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

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 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.

continue

26. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

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 provisions of this statement was considered and appropriately implemented by the Municipality on its financial statements for the year ended June 30, 2016.

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*. 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

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

continue

26. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

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*.

27. SUBSEQUENT EVENTS

In accordance with the provisions described on Note 25 of the basic financial statements, the Oversight Board approved the Fiscal Plan for Puerto Rico on March 13, 2017 with immediate effect. The scope of the Fiscal Plan is described in that Note.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 22, 2017, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

REQUIRED SUPPLEMENTARY INFORMATION

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	Budget Amounts		Actual Amounts	
	Original	Final	(Budgetary Basis) (See Notes 1 and 2)	Variance with Final Budget
Resources (Inflows):				
Property Taxes	$ 32,732,859	$ 32,732,859	$ 33,527,320	$ 794,461
Volume of Business Taxes	24,510,000	24,510,000	23,697,454	(812,546)
Sales and Usage Taxes	17,586,000	17,586,000	17,620,145	34,145
Construction Excise Taxes	9,524,000	9,524,000	3,682,559	(5,841,441)
Intergovernmental Revenues	13,766,573	13,766,573	9,893,324	(3,873,249)
Interest	800,000	800,000	291,517	(508,483)
Rent and Other Resources	5,251,205	8,195,502	13,560,417	5,364,915
Fines and Penalties	1,294,000	1,294,000	275,195	(1,018,805)
Total Resources (Inflows)	105,464,637	108,408,934	102,547,931	(5,861,003)
Charges to Appropriations (Outflows):				
General Government	41,712,309	45,400,977	41,392,603	4,008,374
Public Safety	8,800,612	8,181,716	8,060,720	120,996
Public Works	16,195,341	16,494,781	15,714,403	780,378
Culture and Recreation	5,469,121	5,602,952	5,443,670	159,282
Health and Welfare	7,189,761	7,189,761	7,189,761	-
Economic and Social Development	9,698,874	9,582,105	9,223,370	358,735
Housing	881,700	768,368	726,863	41,505
Sanitation and Environmental	12,549,301	12,245,309	11,994,627	250,682
Education	2,967,618	2,942,965	2,856,624	86,341
Total Charges to Appropriations	105,464,637	108,408,934	102,602,641	5,806,293
Excess of Resources Over Appropriations	**$ -**	**$ -**	**$ (54,710)**	**$ (54,710)**

The Notes to the required supplementary information are an integral part of this Schedule.

1. RECONCILIATION OF BUDGET/ GAAP

The schedule presents comparisons of the legally adopted budget with actual data on a budget basis. Because accounting principles applied for purposes of developing data on a budget basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of perspective, timing, and basis of accounting differences in the net change in fund balance for the year ended June 30, 2016 is presented below for the general fund.

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 138)	$ 102,547,931
Difference – Budget to GAAP:	
Transfers from Other Funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(2,957,321)
Sale of Capital Assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(6,598,500)
Basis of accounting:	
Net change in assets and deferred inflow of resources	(682,178)
Perspective Difference:	
Budgetary items - Appropriations from previous years	(2,944,297)
Non Budgetary items - Revenues of Other Funds	4,297,428
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 32)	$ 93,663,063
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 138)	$ 102,602,641
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary items - Expenditures of Other Funds	10,620,927
Other Items - Non budgetary	86,118
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(2,050,559)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	1,529,121
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(7,842,419)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 32)	$ 104,945,829

END OF NOTES

	2015	2016
Proportion of the Net Pension Liability **	0.65806%	0.65806%
Proportionate Share of the Net Pension Liability	$ 198,331,723	$ 218,790,440
Covered - Employee Payroll	$ 22,960,345	$ 21,842,854
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	863.80%	1001.66%
Plan's Fiduciary Net Position	$ 530,831	$ (3,807,752)
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	0.27%	-1.74%

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.

** The Schedule of Proportionate Share for 2015 is unaudited and for 2016 is pending. The schedule assume any change.

	2015	2016
Contractually Required Contribution (Actuarially Determined)	$ 6,876,727	$ 9,278,646
Contributions in Relation to the Actuarially Required Contributions	5,469,163	6,633,353
Contribution Deficiency (Excess)	$ 1,407,564	$ 2,645,293
Covered - Employee Payroll	$ 22,960,345	$ 21,842,854
Contributions as a Percentage of Covered-Employee Payroll	23.82%	30.37%

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	6.55% , Net of Pension Plan Investment, Including Inflation
Municipal Bond Index	3.80% , as per Bond Buyer General Obligation 20 — Bond Municipal Bond Index
Discount Rate	3.80%
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.

1. The Municipality implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, during fiscal year 2015, and these schedules are now required.

2. This information is intended to help users assess the Municipality's pension plan's status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employers.

3. The information presented relates solely to the Municipality and not Employee's Retirement System of the Government of the Commonwealth of Puerto Rico as a whole.

END OF NOTES

COMBINING FINANCIAL STATEMENTS

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Non Major Governmental Funds

Housing Funds – Accounts for the funds of those federal and state assignments for eligible participants and related to housing and welfare.

Social & Welfare Activities – Accounts for the funds to improve the quality of life in the communities.

Economic Development – Accounts for the funds to improve the development and economic growth in the Municipality.

Mass Transportation System – Accounts for the funds to improve the transportation in the Municipality and construction of a train.

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	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and Cash Equivalents	$ 1,076,815	$ 957,986	$ 1,025,482	$ -	$ 3,060,283
Cash with Fiscal Agent	-	-	1,631	481,960	483,591
Receivables:					
Sales and Usage Taxes	-	-	-	-	-
Volume of Business Taxes	-	-	-	-	-
Due from Governmental Units	-	12,111	124,651	-	136,762
Federal Grants	1,187,719	32,193	25,000	-	1,244,912
Due from Other Funds	-	-	-	-	-
Loans Receivable	10,160	54,802	445,909	-	510,871
Other	-	-	62	-	62
Total Assets	**$ 2,274,694**	**$ 1,057,092**	**$ 1,622,735**	**$ 481,960**	**$ 5,436,481**
LIABILITIES:					
Account Payable	$ 77,322	$ 114,133	$ 61,170	$ -	$ 252,625
Bond Payable	-	-	-	-	-
Interest on Bonds Payable	-	-	-	-	-
Due to Other Funds	108,446	1,042,575	1,288,734	403,953	2,843,708
Advance Deposits	1,000	-	-	-	1,000
Unearned Revenues - Volume of Business Tax	-	-	-	-	-
Total Liabilities	**186,768**	**1,156,708**	**1,349,904**	**403,953**	**3,097,333**
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenues:					
Commonwealth of Puerto Rico	-	-	-	-	-
Federal Grants	923,777	-	-	-	923,777
Total Deferred Inflows of Resources	**923,777**	**-**	**-**	**-**	**923,777**
FUND BALANCES:					
Restricted	1,169,531	811,987	1,237,355	-	3,218,873
Committed	-	-	62,478	78,007	140,485
Assigned	-	-	-	-	-
Unassigned (Deficit)	(5,382)	(911,603)	(1,027,002)	-	(1,943,987)
Total Fund Balances	**1,164,149**	**(99,616)**	**272,831**	**78,007**	**1,415,371**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 2,274,694**	**$ 1,057,092**	**$ 1,622,735**	**$ 481,960**	**$ 5,436,481**

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

	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
REVENUES:					
Property Taxes	$ -	$ -	$ -	$ -	$ -
Volume of Business Taxes	-	-	-	-	-
Sales and Usage Taxes	-	-	-	-	-
Construction Excise Taxes	-	-	-	-	-
Federal Grants	9,277,448	1,958,402	220,697	104,910	11,561,457
Fines and Penalties	-	-	-	-	-
Intergovernmental	-	117,832	798,701	-	916,533
Interest	2,163	2,054	11,962	-	16,179
Rent and Other Services	-	3,445	69,662	-	73,107
Solid Waste Disposal	-	-	-	-	-
Other General Revenues	209,558	299,913	16,684	-	526,155
Total Revenues	**9,489,169**	**2,381,646**	**1,117,706**	**104,910**	**13,093,431**
EXPENDITURES:					
Current:					
General Government	18,689	159	132,679	-	151,527
Public Safety	-	153,741	23,206	-	176,947
Public Works	183,160	10,360	467,164	124,000	784,684
Culture and Recreation	-	-	21,387	-	21,387
Health and Welfare	18,774	212,331	98,582	-	329,687
Education	-	1,867,751	99,205	-	1,966,956
Sanitation and Environmental	-	-	-	-	-
Economic and Social Development	-	120,307	166,361	-	286,668
Housing	9,052,877	-	-	-	9,052,877
Capital Outlay	3,790	535,888	58,485	-	598,163
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Total Expenditures	**9,277,290**	**2,900,537**	**1,067,069**	**124,000**	**13,368,896**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**211,879**	**(518,891)**	**50,637**	**(19,090)**	**(275,465)**

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

	HOUSING FUND	SOCIAL AND WELFARE ACTIVITIES FUND	ECONOMIC DEVELOPMENT ACTIVITIES FUND	MASS TRANSPORTATION SYSTEM FUND	TOTAL OTHER NON MAJOR GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):					
Transfers – In	$ -	$ -	$ -	$ -	$ -
Transfers – Out	(358,109)	-	(67,500)	(104,910)	(530,519)
Total Other Financing Sources (Uses)	**(358,109)**	**-**	**(67,500)**	**(104,910)**	**(530,519)**
SPECIAL ITEMS:					
Sales of Capital Assets	-	-	-	-	-
Sales of Other Assets	235,774	-	-	-	235,774
Total Special Items	**235,774**	**-**	**-**	**-**	**235,774**
Net Change in Fund Balances	**89,544**	**(518,891)**	**(16,863)**	**(124,000)**	**(570,210)**
Fund Balances – Beginning, As Previously Reported	1,074,605	419,275	289,694	202,007	1,985,581
Restatement	-	-	-	-	-
Fund Balances – Beginning, as Restated	1,074,605	419,275	289,694	202,007	1,985,581
FUND BALANCES – ENDING	**$ 1,164,149**	**$ (99,616)**	**$ 272,831**	**$ 78,007**	**$ 1,415,371**

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

Statistical Section

Autonomous Municipality of Caguas
For the Fiscal Year Ended June 30, 2016

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STATISTICAL SECTION

This part of the Autonomous Municipality of Caguas comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents **Page**

Except where noted, the information in these schedules is derived from the Autonomous Municipality of Caguas audited financial reports for the corresponding year. The Municipality implemented GASB Statement Nos. 63 and 65 in fiscal year ended June 30, 2013; schedules presenting government-wide information were changed accordingly. During Fiscal Year 2014-2015, the Municipality implemented the requirements of GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions,* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements required prior year adjustments. Accordingly, some figures are adjusted to consider such restatements.

Sources: The Municipality's audited financial reports for the previous ten years. District files and public records from various local and state agencies.

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental										
Net Invested in Capital Assets	$ 275,432,752	$ 266,744,576	$ 280,137,995	$ 270,985,585	$ 297,583,980	$ 360,577,001	$ 370,652,456	$ 387,689,421	$ 344,613,386	$ 293,057,489
Restricted	35,585,406	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569	59,016,483
Unrestricted (Deficit)	(274,139,586)	(265,004,703)	(255,272,010)	(67,369,074)	(59,415,949)	(55,880,319)	(51,368,451)	(32,910,505)	8,363,042	8,873,193
Total	$ 36,878,572	$ 44,962,603	$ 61,657,557	$ 251,670,442	$ 271,461,883	$ 344,797,729	$ 358,218,122	$ 370,950,828	$ 403,106,997	$ 360,947,165
Business-Type Activities										
Net Invested in capital assets	$ -	$ -	$ -	$ -	$ 23,147,188	$ 23,604,950	$ 23,722,874	$ 17,155,385	$ 13,006,233	$ 7,754,461
Restricted	-	-	-	-	-	-	-	-	-	5,377,561
Unrestricted	-	-	-	-	1,981,356	2,636,538	5,579,396	4,692,281	5,379,357	-
Total	$ -	$ -	$ -	$ -	$ 25,128,544	$ 26,241,488	$ 29,302,270	$ 21,847,666	$ 18,385,590	$ 13,132,022
Activities Totals										
Net Invested in Capital Assets	$ 275,432,752	$ 266,744,576	$ 280,137,995	$ 270,985,585	$ 320,731,168	$ 384,181,951	$ 394,375,330	$ 404,844,806	$ 357,619,619	$ 300,811,950
Restricted	35,585,406	43,222,730	36,791,572	48,053,931	33,293,852	40,101,047	38,934,117	16,171,912	50,130,569	64,394,044
Unrestricted (Deficit)	(274,139,586)	(265,004,703)	(255,272,010)	(67,369,074)	(57,434,593)	(53,243,781)	(45,789,055)	(28,218,224)	13,742,399	8,873,193
Total	$ 36,878,572	$ 44,962,603	$ 61,657,557	$ 251,670,442	$ 296,590,427	$ 371,039,217	$ 387,520,392	$ 392,798,494	$ 421,492,587	$ 374,079,187

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities:										
Expenses										
General Government	$ 34,835,322	$ 40,651,105	$ 38,255,865	$ 42,596,455	$ 46,853,541	$ 39,743,963	$ 40,414,023	$ 43,407,060	$ 36,885,789	$ 53,886,597
Public Safety	12,636,567	11,954,408	9,804,511	11,094,742	11,060,805	10,410,999	11,721,689	9,965,172	10,734,003	9,272,095
Public Work	23,866,136	23,525,790	22,565,224	28,739,562	30,008,248	29,591,596	23,517,464	31,999,201	25,560,207	41,441,711
Culture and Recreation	10,791,132	10,374,870	10,120,801	11,963,260	6,584,416	4,577,429	5,310,329	7,429,284	12,403,733	7,804,848
Health and Welfare	12,330,653	12,543,232	11,994,232	12,994,565	17,995,172	19,084,763	19,589,340	19,062,734	15,819,886	7,836,447
Economic Development	8,272,443	9,328,833	8,199,012	9,482,715	6,765,876	14,063,387	9,563,934	9,675,386	5,378,274	6,327,654
Housing	10,572,877	10,545,647	11,030,562	11,799,459	11,907,765	11,045,789	12,034,862	18,836,679	12,405,463	10,959,641
Sanitation and Environmental	17,191,880	16,387,879	15,347,716	16,019,816	16,298,783	15,637,305	14,573,005	15,092,658	15,109,993	13,263,809
Education	20,321,130	20,033,373	17,028,422	18,542,112	16,931,864	15,887,413	15,691,577	14,691,953	16,545,308	14,076,737
Unallocated Interest	10,323,912	10,802,643	10,636,609	11,681,762	10,676,171	9,258,116	8,611,307	9,448,175	11,775,259	10,472,894
Loss of Disposition Asset	-	-	-	1,412,427	-	-	-	-	-	-
Total expenses	161,142,052	166,147,780	154,982,954	176,326,875	175,082,641	169,300,760	161,027,530	179,608,302	162,617,915	175,342,433
Program Revenues										
Charge for services:										
General Government	-	-	-	-	105,238	153,805	758,210	240,552	227,051	3,518,766
Culture and Recreation	25,300	27,868	-	-	122,987	-	-	-	-	-
Public Safety	457,126	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892	407,103
Health and Welfare	-	-	-	-	-	-	-	-	-	12,201
Economic and Social Development	673,877	409,708	368,948	581,564	1,787,815	369,335	374,107	145,214	190,856	688,264
Housing	-	1,400	250	-	-	-	-	-	-	-
Sanitation and Enviromental	81,130	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408	-
Education	-	-	-	-	-	-	-	-	-	-
Operating Grants and Contributions	29,271,828	29,465,623	27,371,911	29,639,476	31,463,254	35,241,185	33,176,474	32,729,207	31,614,880	31,160,356
Capital Grants and Contributions	1,047,754	2,181,931	2,022,386	3,037,004	2,524,865	4,979,585	4,264,705	2,736,340	60,901,514	17,467,339
Total program revenues	31,557,015	32,822,986	30,722,932	33,927,071	36,630,005	41,752,548	39,522,423	36,339,019	93,130,601	53,254,029
Total Net Expense	**129,585,037**	**133,324,794**	**124,260,022**	**142,399,804**	**138,452,636**	**127,548,212**	**121,505,107**	**143,269,283**	**69,487,314**	**122,088,404**
Business-type activities:										
Community Development Bank	-	-	-	-	(65,329)	10,422	(48,935)	(441,583)	(51,056)	(137,344)
Multitenant	-	-	-	-	(426,408)	(214,897)	(278,456)	(5,760)	1,067,991	1,942,615
Total Net (Expense) Revenue	**-**	**-**	**-**	**-**	**(491,737)**	**(204,475)**	**(327,391)**	**(447,343)**	**1,016,935**	**1,805,271**

(continued)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Revenues										
Property Taxes	$ 57,424,592	$ 50,700,722	$ 51,678,096	$ 53,565,168	$ 56,891,271	$ 54,082,666	$ 55,698,431	$ 45,200,224	$ 53,966,882	$ 53,882,740
Volume of Business Taxes	23,191,310	23,624,260	24,735,251	25,805,434	24,084,347	26,227,325	23,060,087	37,477,506	25,672,625	29,428,186
Sales and Usage Taxes	21,077,117	20,916,340	20,580,433	20,604,386	20,187,076	18,845,077	19,464,329	19,653,668	18,978,615	19,510,957
Construction Excise Taxes	3,911,557	4,947,664	2,991,732	3,107,824	5,453,189	2,428,661	-	4,935,551	4,463,529	8,902,337
Interest and Investment Income	428,359	756,516	981,420	816,993	836,107	758,315	699,719	2,105,345	3,262,871	3,240,416
Gain or (Loss) on disposal of Capital Assets	2,750,000	-	-	-	95,807	-	1,528,317	(44,589)	-	-
Indirect costs	-	-	-	-	-	-	-	-	750,000	-
Intergovernmental	10,058,290	13,648,070	14,012,671	16,649,898	14,333,905	11,766,517	11,272,151	10,902,119	-	-
Other	2,383,706	2,260,199	2,147,933	2,058,660	595,700	1,503,460	1,091,739	(200,328)	1,021,244	-
Total revenues	121,224,931	116,853,771	117,127,536	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766	114,964,636
Special Items										
Donated Capital Assets	276,075	-	66,911	-	-	-	-	-	-	-
Contributions to Nonprofit Entity	-	-	(767,917)	-	-	-	-	-	-	-
Total General Revenues and Special Items	121,501,006	116,853,771	116,426,530	122,608,363	122,477,402	115,612,021	112,814,773	120,029,496	108,115,766	114,964,636
CHANGE IN NET POSITION										
Governmental Activities	(8,084,031)	(16,471,023)	(7,833,492)	(19,791,441)	(15,975,234)	(11,936,191)	(8,690,334)	(23,239,787)	38,628,452	(7,123,768)
Business-type activities	-	-	-	-	(1,010,422)	(2,317,262)	6,934,498	3,115,773	1,352,692	2,457,458
Total Primary Government	$ (8,084,031)	$ (16,471,023)	$ (7,833,492)	$ (19,791,441)	$ (16,985,656)	$ (14,253,453)	$ (9,017,725)	$ (23,687,130)	$ 39,645,387	$ (5,318,497)

Fund Balances – Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2016*	2015*	2014*	2013*	2012*	2011*	2010	2009	2008	2007
General Fund:										
Commited	$ 5,862,368	$ 8,731,817	$ 6,436,469	$ 6,887,214	$ 3,993,401	$ 893,795	-	-	-	-
Assigned	2,650,689	2,344,985	2,715,496	2,171,778	2,453,824	2,235,950	-	-	-	-
Unassigned	493,306	5,994,026	5,719,987	5,629,486	10,491,443	6,444,769	-	-	-	-
Restricted/Reserved	2,746,186	2,791,023	2,064,020	3,649,683	-	-	2,302,160	4,383,200	6,143,629	6,917,308
Unreserved	-	-	-	-	-	-	3,379,316	(4,138,068)	2,219,413	1,955,885
Total General Fund	**11,752,549**	**19,861,851**	**16,935,972**	**18,338,161**	**16,938,668**	**9,574,514**	**5,681,476**	**245,132**	**8,363,042**	**8,873,193**
Capital Project Fund:										
Restricted/ Reserved	9,884,592	12,880,627	17,935,948	24,451,526	24,832,522	13,600,623	12,315,145	24,443,301	35,056,375	59,774,609
Assigned	454,593	1,753,352	2,352,609	-	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-	-	-	-	17,183,068	-
Total Capital Project Fund	**10,339,185**	**14,633,979**	**20,288,557**	**24,451,526**	**24,832,522**	**13,600,623**	**12,315,145**	**24,443,301**	**52,239,443**	**59,774,609**
Debt Service Fund:										
Restricted/ Reserved	18,078,261	11,459,393	17,098,233	17,444,896	19,963,005	27,232,079	19,995,667	7,209,097	3,941,040	6,318,128
Total Debt Service Fund	**18,078,261**	**11,459,393**	**17,098,233**	**17,444,896**	**19,963,005**	**27,232,079**	**19,995,667**	**7,209,097**	**3,941,040**	**6,318,128**
Health and Human Services Fund:										
Restricted/ Reserved	30,012	27,512	95,150	-	-	-	-	-	-	-
Unassigned (deficit)	(69,395)	-	-	-	-	-	-	-	-	-
Total Health and Human Services Fund	**(39,383)**	**27,512**	**95,150**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Govermental Funds:										
Commited	140,485	264,273	539,699	942,538	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned (Deficit)	(1,943,987)	(1,460,446)	(410,506)	(423,703)	-	-	-	-	4,257,657	-
Restricted	3,218,873	3,181,754	3,295,775	3,318,288	5,996,896	7,773,228	9,227,818	1,244,008	3,169,301	11,568,736
Total Other Governmental Fund	**1,415,371**	**1,985,581**	**3,424,968**	**3,837,123**	**5,996,896**	**7,773,228**	**9,227,818**	**1,244,008**	**7,426,958**	**11,568,736**
Total Fund Balances	$ 41,545,983	$ 47,968,316	$ 57,842,880	$ 64,071,706	$ 67,731,091	$ 58,180,444	$ 47,220,106	$ 33,141,538	$ 71,970,483	$ 86,534,666

*The Municipality implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective July 1st, 2010.

Changes in Fund Balances – Governmental Funds
Last Ten Fiscal Years
(Prepared by using the modified accrual basis of accounting)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues:										
Property Taxes	$ 56,822,898	$ 51,489,610	$ 55,504,656	$ 48,949,720	$ 56,891,271	$ 53,167,198	$ 55,698,431	$ 45,200,224	$ 53,764,606	$ 53,882,740
Volume of Business Taxes	23,191,310	23,624,260	24,735,251	25,805,434	24,446,587	26,265,718	26,043,011	27,054,049	25,672,625	29,428,186
Sales and Usage Taxes	21,077,117	20,916,340	20,580,433	20,604,386	20,035,853	18,940,708	20,051,076	17,531,315	18,978,615	19,510,597
Construction Excise Taxes	3,911,557	4,947,664	2,991,732	3,107,824	5,453,189	2,583,023	1,297,115	4,033,924	4,463,529	8,902,337
Federal Grants	27,350,263	27,543,277	29,453,456	29,181,144	31,523,008	32,019,158	31,258,252	26,451,538	26,141,461	33,048,797
Fines and Penalties	457,126	636,603	851,906	606,619	588,401	910,061	830,352	468,387	133,892	251,811
Interest	421,867	756,516	981,786	816,993	834,404	755,974	682,234	2,088,394	3,203,797	3,135,304
Intergovernmental	12,768,425	16,037,892	16,998,516	19,739,987	17,443,293	22,930,091	18,981,159	19,916,128	10,720,031	14,952,975
Parking fees	-	-	-	-	105,238	153,805	220,031	240,552	227,051	359,836
Rent and Other Services	771,784	707,183	912,997	642,189	1,787,815	369,335	294,561	145,214	190,856	675,921
Indirect cost	-	-	-	23,228	-	-	-	-	750,000	-
Solid Waste Disposal	81,130	99,853	107,531	62,408	37,445	98,577	118,575	19,319	62,408	-
Other General Revenues	2,283,150	2,077,188	1,848,394	2,035,432	1,116,540	1,493,917	1,075,040	235,591	1,021,244	2,321,198
Total Revenues	149,136,627	148,836,386	154,966,658	151,575,364	160,263,044	159,687,565	156,549,837	143,384,635	145,330,115	166,469,702
Expenditures										
General Government	36,082,944	36,122,860	37,586,925	42,476,419	38,411,214	36,040,433	35,588,049	36,835,062	30,147,616	44,374,128
Public Safety	10,390,401	10,275,282	9,956,068	10,398,620	9,950,281	10,276,704	10,731,195	9,490,952	10,379,889	9,086,946
Public Works	14,670,749	14,605,288	13,614,572	18,126,190	19,516,855	22,073,362	14,719,619	23,311,211	17,197,882	25,996,558
Culture and Recreation	5,925,871	5,618,689	5,535,141	6,209,382	6,108,679	4,261,700	5,072,011	7,179,247	8,264,925	7,698,597
Health and Welfare	11,891,793	12,142,314	11,857,137	12,883,440	12,737,153	14,094,371	14,283,042	14,543,053	15,749,859	7,578,755
Economic and Social Development	7,234,092	7,203,716	6,690,860	7,602,515	3,855,726	9,271,739	4,352,604	4,322,837	5,178,600	6,206,609
Housing	9,882,894	9,823,444	10,884,363	11,356,593	12,003,737	11,045,326	11,889,816	18,479,742	11,920,904	10,959,641
Sanation and Enviromental	16,143,727	15,518,486	15,692,720	16,035,909	15,931,482	15,409,251	14,452,698	14,777,784	14,849,915	13,170,394
Education	18,275,354	17,914,495	16,097,631	16,994,331	16,556,906	16,843,621	15,658,563	14,666,929	14,123,498	13,845,949
Capital Outlay	7,077,900	6,667,417	14,852,612	13,250,190	21,045,938	14,284,324	20,965,871	27,233,715	32,532,007	34,367,084
Debt Service :										
Bond Issurance Cost	-	-	-	98,313	-	-	-	-	-	-
Principal	14,493,597	16,148,893	15,131,804	15,617,575	15,541,341	12,841,059	15,691,623	11,412,339	9,098,033	9,176,033
Interest and Other Charges	10,323,912	10,802,643	10,636,609	11,681,762	10,664,031	8,975,105	8,611,307	9,448,175	11,775,259	10,472,894
Total Expenditures	162,393,234	162,843,527	168,536,442	182,731,239	182,323,343	175,416,995	172,016,398	191,701,046	181,218,387	192,933,588

(continued)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(13,256,607)	(14,007,141)	(13,569,784)	(31,155,875)	(22,060,299)	(15,729,430)	(15,466,561)	(48,316,411)	(35,888,272)	(26,463,886)
Other financing sources (uses)										
Proceeds from debt issuance	-	3,850,000	7,415,000	24,601,621	32,120,000	25,659,817	32,025,000	30,592,500	25,996,000	24,210,000
Refunding Bond Issuances	-	-	27,669,088	-	-	-	-	-	-	-
Payment to Refunded Bond	-	-	(27,470,000)	-	-	-	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	(199,088)	-	-	-	-	-	-	-
Proceeds from debt refinancing	-	-	-	-	13,325,000	34,451,293	-	-	-	-
Payments of debt refinancing and other uses	-	-	-	-	(13,325,000)	(34,451,293)	-	-	-	-
Advance from Other Governments	-	-	-	-	-	-	-	1,386,083	-	-
Operating Transfer In	9,041,960	11,976,969	5,247,152	5,247,152	25,981,726	5,330,823	9,051,710	10,710,169	17,194,331	19,525,568
Operating Transfer Out	(9,041,960)	(11,976,969)	(5,247,132)	(5,247,152)	(25,717,733)	(5,330,823)	(14,751,098)	(14,692,253)	(17,471,013)	(20,072,644)
Total Other Financing Sources (Uses)	-	3,850,000	7,415,020	24,601,621	32,383,993	25,659,817	26,325,612	27,996,499	25,719,318	23,662,924
NET CHANGE IN FUND BALANCE	$ (13,256,607)	$ (10,157,141)	$ (6,154,764)	$ (6,554,254)	$ 10,323,694	$ 9,930,387	$ 10,859,051	$ (20,319,912)	$ (10,168,954)	$ (2,800,962)
Debt Service as a percentage of non-capital expenditures	16.0%	17.3%	16.8%	16.1%	16.2%	13.5%	16.1%	12.7%	14.0%	12.4%

Real Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal year ended June 30	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value	Total direct tax rate
2016*	48,350	$ 7,226,257,430	1255	$ 626,068,540	47,095	$ 6,600,188,890	33,837	$3,305,675,900	13,258	$3,294,512,990	0.983%
2015*	48,143	7,181,187,980	1271	600,587,180	46,872	6,580,600,800	33,830	3,303,136,910	13,042	3,277,463,890	0.983%
2014*	48,015	7,756,389,441	1158	651,709,600	46,857	7,104,679,841	33,929	3,310,892,440	12,928	3,793,787,401	0.983%
2013*	47,822	7,192,693,390	1073	611,753,350	46,749	6,580,940,040	33,805	3,295,580,880	12,944	3,285,359,160	0.983%
2012*	47,732	7,189,854,910	1000	491,301,280	46,732	6,698,553,630	33,637	3,278,494,240	21,689	3,420,059,390	0.98%
2011*	47,227	7,031,730,668	741	447,166,944	46,486	6,584,563,724	33,505	3,256,559,845	21,365	3,328,003,879	0.98%
2010*	46,442	6,908,458,026	623	451,354,212	45,819	6,457,103,814	32,876	3,180,445,153	12,943	3,276,658,661	0.98%
2009	44,999	668,709,652	520	49,905,209	44,479	618,804,443	31,770	305,425,970	20,174	313,378,473	9.53%
2008	44,125	653,072,232	469	47,517,534	43,656	605,554,698	31,106	296,769,315	19,940	308,785,383	9.53%
2007	43,163	637,333,592	533	52,247,255	42,630	585,086,337	30,850	294,634,177	19,071	290,452,160	8.78%

Personal Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE		
Fiscal year ended June 30	# Property	Value	# Property	Value	# Property	# Property	# Property	Value	# Property	Value	Total direct tax rate
2016	2,811	$ 456,138,271	157	$ 157,065,643	2,654	$ 299,072,628	539	$ 2,853,698	2,115	$ 296,218,930	7.83%
2015	2,822	442,402,043	140	118,486,504	2,682	323,915,539	561	3,108,249	2,121	320,807,290	7.83%
2014	2,936	542,977,551	143	212,942,877	2,793	330,034,674	578	3,134,580	2,215	326,900,094	7.83%
2013	2,976	595,686,235	138	253,852,889	2,838	341,833,346	596	3,533,915	2,242	338,299,431	7.83%
2012	3,048	576,386,120	157	234,189,018	2,891	342,197,102	620	4,196,437	2,384	338,000,665	7.83%
2011	3,042	639,021,679	170	269,892,877	2,872	369,128,802	573	3,734,501	2,408	365,394,301	7.83%
2010	2,909	641,411,184	143	259,018,920	2,766	382,392,264	585	4,626,510	2,181	377,765,754	7.83%
2009	3,296	612,839,684	154	229,378,366	3,142	383,461,318	591	4,900,647	1,993	378,560,671	7.53%
2008	3,020	594,315,969	141	197,298,357	2,879	397,017,612	634	4,602,732	2,363	392,414,880	7.53%
2007	2,925	580,767,869	150	192,071,390	2,775	388,696,479	622	4,738,987	2,292	383,957,492	6.78%

(continued)

Total Property	GROSS		EXEMPT		TAXABLE		EXONERATED		NET VALUE	
Fiscal year ended										
June 30	# Property	Value	# Property	Value	# Property	Value	# Property	Value	# Property	Value
2016*	51,161	$ 7,682,395,701	1412	$ 783,134,183	49749	$ 6,899,261,518	34376	$3,308,529,598	15373	$3,590,731,920
2015*	50,965	7,623,590,023	1411	719,073,684	49554	6,904,516,339	34391	3,306,245,159	15163	3,598,271,180
2014*	50,951	8,299,366,992	1301	864,652,477	49650	7,434,714,515	34507	3,314,027,020	15143	4,120,687,495
2013*	50,798	7,788,379,625	1211	865,606,239	49587	6,922,773,386	34401	3,299,114,795	15186	3,623,658,591
2012*	50,780	7,766,241,030	1157	725,490,298	49623	7,040,750,732	34257	3,282,690,677	24073	3,758,060,055
2011*	50,269	7,670,752,347	911	717,059,821	49,358	6,953,692,526	34,078	3,260,294,346	23,773	3,693,398,180
2010*	49,351	7,549,869,210	766	710,373,132	48,585	6,839,496,078	33,461	3,185,071,663	15,124	3,654,424,415
2009	48,295	1,281,549,336	674	279,283,575	47621	1,002,265,761	32361	310,326,617	22167	691,939,144
2008	47,145	1,247,388,201	610	244,815,891	46,535	1,002,572,310	31,740	301,372,047	22,303	701,200,263
2007	46,088	1,218,101,461	683	244,318,645	45,405	973,782,816	31,472	299,373,164	21,363	674,409,652

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

Source: Municipal Collection Tax Center

Real Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2016	0.58%	0.300%	0.103%	0.983%
2015	0.58%	0.300%	0.103%	0.983%
2014	0.58%	0.300%	0.103%	0.983%
2013	0.58%	0.300%	0.103%	0.983%
2012	0.58%	0.300%	0.103%	0.983%
2011	0.58%	0.300%	0.103%	0.983%
2010	0.58%	0.300%	0.103%	0.983%
2009	5.80%	2.50%	1.03%	9.33%
2008	5.80%	2.50%	1.03%	9.33%
2007	5.80%	1.75%	1.03%	8.58%

Personal Property

Fiscal year	General Purpose	Debt Service	Commonwealth of Puerto Rico	Total
2016	3.80%	3.00%	1.03%	7.83%
2015	3.80%	3.00%	1.03%	7.83%
2014	3.80%	3.00%	1.03%	7.83%
2013	3.80%	3.00%	1.03%	7.83%
2012	3.80%	3.00%	1.03%	7.83%
2011	3.80%	3.00%	1.03%	7.83%
2010	3.80%	3.00%	1.03%	7.83%
2009	3.80%	2.50%	1.03%	7.33%
2008	3.80%	2.50%	1.03%	7.33%
2007	3.80%	1.75%	1.03%	6.58%

Source: Municipal Collection Tax Center

Personal Property		2016			2007		
Taxpayer		Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Wal-mart Puerto Rico, Inc.	$	1,877,598	1	8.10%	$ 1,964,078	1	7.54%
Costco Wholesale		953,602	2	4.11%	654,450	9	2.51%
Avon Products, Inc.		713,065	3	3.07%	1,058,792	3	4.07%
Walgreen's of Puerto Rico		637,245	4	2.75%	-		0.00%
Home Depot Puerto Rico, Inc.		514,672	5	2.22%	1,164,958	2	4.48%
K Mart Corporation C/o Burr Wolff		484,817	6	2.09%	-		
Sears Operations LLC		430,622	7	1.86%	-		
Banco Popular de Puerto Rico		394,700	8	1.70%	-		
Plaza Warehousing & Realty Corp		357,782	9	1.54%	-		
Sears Roebuck de Puerto Rico, Inc.		357,375	10	1.54%	816,457	6	3.14%
Drogueria Betances, Inc.		-			1,045,506	4	4.02%
Centennial Puerto Rico Operations Corp		-			897,615	5	3.45%
Caguas Expressway Motors, Inc.		-			712,032	7	2.74%
Centennial Puerto Rico Operations Corp		-			676,217	8	2.60%
Home Depot Puerto Rico, Inc.		-			639,190	10	2.46%
Total		$ 6,721,477		28.98%	$ 9,629,295		18.46%

(continued)

Real Property	2016			2007		
Taxpayer	Tax Levied	Rank	Percentage of Total Tax Levied	Tax Levied	Rank	Percentage of Total Tax Levied
Puerto Rico Telephone Company, Inc.	$ 1,388,298	1	4.29%	$ 1,535,224	1	6.16%
Urban Edge Caguas LP	390,234	2	1.20%			
M B Caguas Land Partnership SE	230,835	3	0.71%			
First SB SCA ASSOC/MJS Caguas limited	225,494	4	0.70%	214,024	4	0.86%
Kim Sam PR Retail LLC	211,546	5	0.65%			
Wal-mart Puerto Rico, Inc.	185,948	6	0.57%	154,821	10	0.62%
Puerto Rico Telephone Company Inc.	176,318	7	0.54%			
TSCPR Family Partnership #8, LTD, SE	172,970	8	0.53%			
Seritage SRC Finance LLC	163,276	9	0.50%			
T- Mobile Puerto Rico LLC	161,369	10	0.50%			
Caguas Centrum Limited Partnership S E	-			370,186	2	1.49%
Centro Medico Del Turabo	-			262,623	3	1.05%
FW Caguas Retail Joint Venture	-			200,786	5	0.81%
Plaza Warehousing & Realty Corp	-			192,477	6	0.77%
Ralph Food Warehouse	-			170,957	7	0.69%
Celulares telefonica Inc	-			160,215	8	0.64%
Sears Roebuck of PR Inc	-			154,971	9	0.62%
Total	$ 6,612,574		20.42%	$ 6,832,563		27.42%

Source: Municipal Collection Tax Center

* The Law Number 7 dated March 9, 2009, amended the formula for the computation of real property value. That new law establishes that the value of real property should be determined by multiplying the actual property valuation amount by 10 times the actual value of property beginning on January 1, 2009.

		Collected within the fiscal year of the levy				
Fiscal Year ended June 30	Taxes Levied for the Fiscal Year	Amount	Percentage of levy	Collections from prior years levied taxes	Total Collections to Date	Ratio of Total Tax Collections to Total Tax Levy
2016	$ 54,935,788	$ 37,048,209	67%	$ 10,889,501	$ 47,937,710	87%
2015	56,637,094	39,626,877	70%	8,183,101	47,809,978	84%
2014	56,878,932	28,464,925	50%	20,698,463	49,163,388	86%
2013	57,369,030	34,165,051	60%	17,847,544	52,012,595	91%
2012	58,594,113	34,643,304	59%	15,790,399	50,433,703	86%
2011	61,199,448	40,592,294	66%	11,336,060	51,928,354	85%
2010	61,809,774	36,253,449	59%	15,074,274	51,327,723	83%
2009	55,861,044	38,467,806	69%	13,299,991	51,767,797	93%
2008	58,023,498	45,692,028	79%	5,302,089	50,994,116	88%
2007	55,396,264	48,061,336	87%	4,110,971	52,172,307	94%

Source: Municipal Tax Collection Center

Ratios of Outstanding Debt by Type and Ratios Of Federal Bonded Debt Outstanding Last Ten Fiscal Years

Municipality's Outstanding Debt	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental Activities										
General Obligation Bonds[a]	$ 169,226,108	$ 179,959,520	$ 190,044,937	$ 183,991,263	$ 193,774,956	$ 207,117,677	$ 211,783,677	$ 115,180,680	$ 115,103,680	$ 114,153,680
Special Obligation Bonds	72,620,000	77,937,000	78,889,000	3,800,000	4,200,000	4,870,000	5,470,000	6,555,000	8,229,000	8,605,000
Federal Loans	2,400,000	3,000,000	3,400,000	92,728,000	74,283,000	37,855,000	17,939,000	96,058,500	66,032,758	50,043,791
Total	$ 244,246,108	$ 260,896,520	$ 272,333,937	$ 280,519,263	$ 272,257,956	$ 249,842,677	$ 235,192,677	$ 217,794,180	$ 189,365,438	$ 172,802,471
Business type Activities										
Special bonds	-	-	-	-	3,593	39,571	74,840	224,165	279,435	363,982
Total general outstanding debt	$ 244,246,108	$ 260,896,520	$ 272,333,937	$ 280,519,263	$ 272,261,549	$ 249,882,248	$ 235,267,517	$ 218,018,345	$ 189,644,873	$ 173,166,453

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Percentage of personal income[b]	13.47%	17.89%	15.50%	13.75%	13.91%	14.77%	13.54%	13.55%	10.50%	10.99%
Total long-term debt per capita[b]	1,816	1,889	1,919	1,972	1,926	1,751	1,646	1,520	1,323	1,209
Bonds payable per capita[b]	1,258	1,303	1,339	1,293	1,370	1,452	1,482	804	804	798
Net Assessed Value of Taxable Property	$ 3,590,731,920	$ 3,598,271,180	$ 4,120,687,495	$ 3,623,658,591	$ 3,758,060,055	$ 3,693,398,180	$ 3,654,424,415	$ 691,939,144	$ 701,200,263	$ 674,409,652
Percentage of bonds payable of net assessed value of property	4.71%	5.00%	4.61%	5.08%	5.16%	5.61%	5.80%	16.65%	16.42%	16.93%

[a] Details regarding the Municipality's outstanding debt can be found in the Note 15 in the current financial statements.
[b] See Demographical and Economic Statistics for personal income population data for the Municipality. The ratios are calculated using personal income and population for the fiscal year.

Legal Debt Margin Calculation as of June 30, 2016:

Assessed Value of Taxable Property	$ -
Legal debt limit -	
10% of assesed value of taxable property	-
Debt applicable limit:	
General obligation	-
Less: GO's Debt Service Fund Balance	-
Total Net applicable to limit	-
Legal Debt Margin	$ - [a]

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Legal Debt Limit	$ -	$ 775,638,944	$ 829,936,699	778,837,963	776,624,103	767,075,235	754,986,921	128,154,934	126,037,644	121,810,146
Total net applicable to limit	-	161,309,329	251,835,704	242,535,104	242,535,104	242,535,104	194,860,800	110,637,495	112,884,406	110,312,904
Legal Debt Margin	$ -	$ 614,329,615	$ 578,100,995	536,302,859	534,088,999	524,540,131	560,126,121	17,517,439	13,153,238	11,497,242
Total net applicable to the limit as a percentage of debt limit	0.0%	20.8%	30.3%	31.1%	31.2%	31.6%	25.8%	86.3%	89.6%	70.5%

Note:

[a] The Municipality does not have debt margin, see Note 25 in the Current Financial Statements.

Fiscal Year	Population		Personal Income	Per Capita		Unemployment Percentage Rate
2016	134,481	***	$ 1,813,610,766	$ 13,486	*	9.8
2015	138,149	***	1,458,162,695	10,555	*	8.9
2014	137,032	*	1,757,024,304	12,822	*	13.8
2013	142,270	***	2,040,720,880	14,344	**	12.1
2012	141,392	*	1,957,855,024	13,847	*	14.1
2011	142,678	*	1,691,590,368	11,856	*	15.4
2010	142,893	*	1,737,293,094	12,158	*	15.6
2009	143,274	*	1,608,680,472	11,228	*	14.3
2008	143,176	*	1,805,449,360	12,610	*	11.4
2007	142,984	*	1,575,540,696	11,019	*	10.3

Source: US Census Bureau

*American Community Survey 1-year estimate

**Estimate by Advantage Business Consultant

*** Planning Board of Puerto Rico

Industry	2016 Employees	2016 Rank	2016 Percentage of Total City Employment	2007 Employees	2007 Rank	2007 Percentage of Total City Employment
RETAIL TRADE	8,753	1	19.3%	10,375	1	21.16%
EDUCATIONAL SERVICES	4,865	2	10.7%	4,105	5	8.37%
HEALTH AND WELFARE	4,847	3	10.7%	4,967	3	10.13%
ADM. SERVICES AND SOLID WASTE	4,611	4	10.2%	2,965	7	6.05%
ACCOMMODATION AND FOOD SERVICES	4,220	5	9.3%	3,186	6	6.50%
PUBLIC ADMINISTRATION	4,021	6	8.9%	6,096	2	12.43%
MANUFACTURING	3,078	7	6.8%	4,345	4	8.86%
WHOLESALE TRADE	1,852	8	4.1%	2,354	9	4.80%
PROFESSIONAL TECHNICAL SERVICES	1,840	9	4.1%	1,249	10	2.55%
CONSTRUCTION	1,549	10	3.4%	2,958	8	6.03%
TOTAL	39,636		87.38%	42,600		86.90%

Source: Puerto Rico Department of Labor and Human Resources.

FUNCTION	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
GENERAL GOVERNMENT	304	304	286	299	424	409	326	288	322	360
PUBLIC SAFETY	242	243	243	305	311	332	355	337	326	330
PUBLIC WORK	337	338	332	352	325	322	304	336	386	403
CULTURE AND RECREATION	130	133	137	133	144	171	134	175	176	215
HEALTH AND WELFARE	525	544	467	85	539	563	467	450	482	527
ECONOMIC AND SOCIAL DEVELOPMENT	75	74	75	488	36	35	79	61	67	85
HOUSING	47	46	48	53	62	61	62	55	59	62
SANITATION AND ENVIRONMENTAL	122	119	123	123	136	138	118	111	119	126
EDUCATION	19	17	17	28	28	31	27	20	31	33
TOTAL	**1,801**	**1,818**	**1,728**	**1,866**	**2,005**	**2,062**	**1,872**	**1,833**	**1,968**	**2,141**

Source: Information was obtain from Municipality's Human Resource Department.

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
PUBLIC SAFETY										
Physical arrests	117	223	125	393	1,633	4,027	3,816	3,222	-	-
Parking violations	5,240	6,915	8,660	9,820	7,658	6,788	6,984	14,345	15,919	12,235
Traffic violations	9,805	13,778	10,950	2,602	14,683	8,622	12,596	21,004	18,147	17,379
PUBLIC WORK										
Walk side construction (cubic yd.)	1,828	2,518	1,590	1,726	2,423	3,869	2,654	2,311	3,407	3,737
Street resurfacing (tons.)	16,229	17,651	19,911	10,069	18,951	17,970	8,498	10,395	27,010	16,630
Potholes repaired (tons.)	2,113	4,055	3,586	5,421	5,890	4,651	3,502	3,967	3,706	4,017
Traffic signals	482	383	262	482	678	603	704	310	580	169
Bus lines (Trolleys):										
Total route miles	28,343	25,391	40,345	41,833	39,835	29,956	29,586	23,724	17,648	16,545
Passengers	129,515	134,335	200,896	208,132	143,239	117,762	140,972	79,516	75,316	63,979
CULTURE AND RECREATION										
Museum attendance	41,787	42,868	45,608	41,350	53,268	41,675	43,232	37,623	37,668	37,350
Arts workshops	76	66	106	83	87	23	23	25	25	25
Arts workshops attendance	1,221	1,133	1,319	8,371	6,299	1,985	2,390	1,002	1,008	1,012
Cultural activities	113	153	171	442	22	30	27	12	15	17
Cultural activities attendance	74,508	71,422	109,589	152,469	779,350	391,871	106,753	130,104	122,301	119,600
Sports organizations	37	36	36	36	36	22	22	36	36	36
Sports activities attendance	140,186	117,128	116,635	105,850	113,350	22,253	19,407	3,217	3,218	3,121
Sports played	16	16	16	16	16	14	16	14	14	13
HEALTH AND WELFARE										
Elderly transportation*	45,647	44,135	41,384	37,627	36,698	34,586	349	285	285	300
ADA transportation*	1,927	1,971	1,186	1,440	1,865	1,978	446	37	38	43
Food-services (nutricional program)*	104,293	102,970	90,131	126,800	61,980	49,205	46,116	100	100	95
Child care (Acuden) enrollment	134	1,557	221,000	2,023	1,586	1,514	1,514	1,482	1,482	1,482
Elderly care center	183	341	161	126	80	80	80	80	80	90
ECONOMIC AND SOCIAL DEVELOPMENT										
Community organizations	80	80	82	81	81	196	196	196	192	189
Business Support Center:										
Orientation or individual support	666	732	788	250	187	870	791	428	316	547
Group training	58	51	52	50	45	30	179	38	-	-
Training attendance	1,666	1,213	1,298	456	842	500	821	-	-	-
Business trainings	7	75	52	42	21	79	59	44	-	-
New business created	12	30	12	36	23	12	36	10	18	4
Jobs created	80	665	81	198	295	436	104	482	152	32
Tourism:										
Orientation for visitors	9,516	10,050	9,898	5,282	9,299	5,719	5,098	3,103	1,478	1,508
Website visits	22,156	20,209	12,072	13,695	20,756	-	-	-	-	-
School groups	25	58	55	47	86	50	100	-	-	-
Students served	1,485	3,650	3,316	1,800	4,387	2,379	6,000	-	-	-
Tourists tours	100	147	121	54	91	87	40	51	-	-
Tourists tours attendance	2,355	4,300	4,347	1,080	3,744	4,580	1,040	1,211	-	-
Botanical and garden attendance	57,373	130,000	122,159	33,447	85,512	91,325	87,367	105,473	19,506	-
HOUSING										
Vouchers	1,325	1,325	1,325	1,325	1,324	1,325	125	1,279	1,279	1,279
Donations minimum rehabilitation	136	58	104	278	258	164	113	125	251	214
Home grants	23	10	17	23	26	11	33	24	9	27
SANITATION AND ENVIRONMENTAL										
Waste Disposal Collected (tons)	57,789	54,279	43,846	60,020	56,470	55,959	68,631	44,145	59,851	61,702
Recyclables Collected (tons)	9,711	10,026	7,414	10,209	9,071	7,879	9,000	8,214	13,474	21,162
EDUCATION										
Public school enrollment	12,060	12,250	13,752	13,990	14,829	15,710	16,946	17,139	17,138	17,130
Municipal school enrollment	334	351	370	365	316	279	243	160	80	-
School transportation service	863	950	997	1,015	1,035	1,071	1,386	1,219	1,219	1,219
Visit to Science and Technology Center	60,014	42,435	10,260	-	-	-	-	-	-	-

Source: Various Municipality's Departments

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Function										
Public safety										
Police:										
Mobile unit	2	2	1	1	1	1				
Stations and substations	10	10	12	12	12	12	12	12	12	11
Patrol units	59	63	49	61	33	45	62	58	46	44
Emergency:										
Emergency units	8	8	10	5	3	1	4	4	4	4
Public works										
Highways and streets (lineal miles)	318	318	318	331	364	364	346	346	346	346
**Public works units	1	-	12	-	-	-	-	-	1	10
Culture and recreation										
Civic Center	1	1	1	1	1	1	1	1	1	1
Museums	10	10	10	8	8	8	7	7	6	6
Recreational facilities:										
Soccer parks	7	7	7	3	2	2	-	-	-	-
Basketball courts	126	126	126	126	126	126	90	90	90	*
Baseball parks	39	39	39	39	39	39	42	42	42	*
Jogging tracks	42	42	42	42	42	42	38	38	38	*
Pasive parks	78	78	78	78	78	78	26	26	26	*
Community's center-facilities	63	67	57	57	56	62	62	62	62	*
Health and welfare:										
Public Hospitals	-	-	1	1	1	1	2	2	2	1
Community health center	2	1	1	1	1	1	1	1	1	1
Emergency Centers	2	1	1	1	1	1	6	6	6	6
Vaccination center	3	-	1	1	1	1	2	2	2	2
Movil health unit	1	-	1	1	1	1	1	1	1	1
Head Start centers-owned premised	17	17	17	18	18	14	14	14	14	14
Head Start centers-leased premised	12	10	14	14	16	20	20	20	20	20
Municipal care centers (children)	2	2	2	2	2	2	3	3	3	3
Municipal care centers (elderly)	3	3	3	3	3	3	3	3		
Economic and Social Development										
Urban centers	1	1	1	1	1	1	1	1	1	1
Commercial spaces	55	53	62	45	45	45	66	66	67	67
Main event venues	8	5	4	4	1	1	1	1	1	1
Sanitation and enviromental										
*** Collection truck	-	-	-	-	-	-	-	-	-	2
Education										
Science and Technology School (Jr. High)	2	1	2	2	2	1	1	1	1	-
Science and Technology Center	1	1	1	-	-	-	-	-	-	-
Library	1	1	1	1	1	1	1	1	1	1
Electronic library	9	9	11	11	11	10	11	11	9	8

Source: Various City Departments
*No data was available
**Public work units are the vehicles purchased per year
***Collections truck are the vehicles purchased per year

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

You have to believe in yourself.
Thats the secret to succes.
Charles Chaplin

When we believe in ourselves, we can

William E. Miranda Torres, Mayor

Autonomous Municipality of Caguas
Commonwealth of Puerto Rico