COMMONWEALTH OF PUERTO RICO
AUTONOMOUS MUNICIPALITY OF CAGUAS

BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

FISCAL YEAR ENDED JUNE 30, 2015

[WITH THE ADDITIONAL REPORTS AND INFORMATION REQUIRED BY THE
GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133]

CPA DIAZ-MARTINEZ, PSC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

AICPA Governmental Audit Quality Center

Member of: American Institute of Certified Public Accountants (AICPA)
Puerto Rico Society of Certified Public Accountants
Enrolled in the AICPA Peer Review Program Since 1988

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PART I – Financial:

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PART I

FINANCIAL

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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 **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality)**, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **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 of material misstatement.

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

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 6.8 percent of the deferred outflows/inflows of resources, total liability as of June 30, 2015, 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, 2015 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 fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico**, as of June 30, 2015, and the respective changes in 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

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 are not modified with respect to this matter.

Restatement of Prior Year Financial Statements

As discussed in Note 21 to the financial statements, the 2014 financial statements have been restated for the implementation of GASB Statements Nos. 68 and 71, and other misstatements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenues and expenditures budget and actual – general fund information, and employees' retirement systems information, on pages 6-21, pages 100-101 and 102-104 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality**'s basic financial statements. The accompanying Financial Data Schedules – Section 8 Housing Choice Vouchers Program, as required by U.S. Department of Housing and Urban Development, on pages 106 through 109, and the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization,* on pages 111 through 116, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The accompanying Financial Data Schedules – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Data Schedules – Section 8 Housing Choice Vouchers Program and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2016 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, 2016

Caguas, Puerto Rico
March 23, 2016

Stamp No. E212807 was affixed to
the original report.

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, 2015. 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 $45,103,797, as restated.

- The government's total assets and deferred outflows, in the Governmental-wide Statement of Net Position decreased by $11,530,675 and government's liabilities and deferred inflows increased by $5,023,085. These changes resulted in a decrease in total net position of $16,553,760, as restated. Refer to the Capital Assets and the Debt Administration Sections for general information related with the use of funds provided by debt issuance.

- As of the close of the current fiscal year, the Municipality's governmental funds reported combined ending fund balances of $47,685,739, as restated, after a total and combined net decrease of $10,157,141.

- The Municipality's total general and special long-term debts net decreased by $11,437,414 during the current fiscal year. The use of funds were 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 $179,313,567 were primarily 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, 2015 was $441,118,631, as restated, presenting a decrease of $10,890,841 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 $1,091,240 (net of depreciation) in the Schedule of Buildings.

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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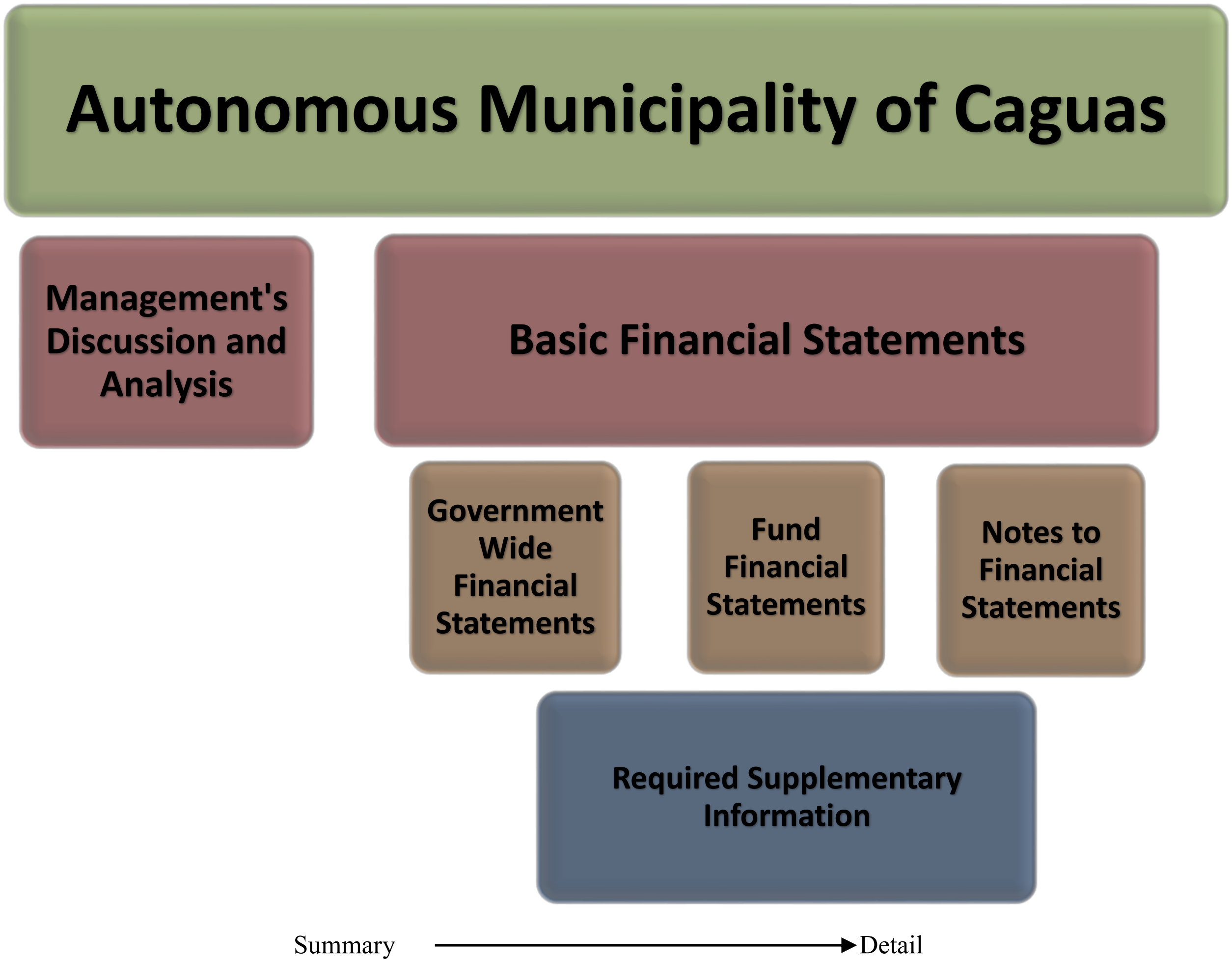
Required Components of Annual Financial Report
Figure 1



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 of 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 2015, the Municipality adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board related to accounting and financial reporting for pensions:

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

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

Statement No. 68, establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed in the Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosures and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the Municipality governmental fund financial statements, which continue to report expenditures in the amount of the actuarially determined contributions, as required by law. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the Municipality's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of July 1, 2014 was decreased from $240 million to $62 million reflecting a net decrease of $179 mainly as a result of the adoption of the Statement No. 68, using unaudited data.

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

The government-wide financial statements are included from pages 22 through 24 of this report.

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 a current financial resources focus. As a result, 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 or not 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 25 through 29 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 30 through 98 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 100-101 of this report.

Required Supplementary Information – The required supplementary information reported are related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting, are presented on pages 102 through 104 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 $45,103,797 as of June 30, 2015. The Municipality's net position decreased by $16,553,760, as restated, for the fiscal year ended June 30, 2015.

One of the largest portions of the net position, $267,268,049, 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 $43,222,730 represents resources that are subject to external restrictions on how they may be used.

An Unrestricted Net Position (Deficit) of ($265,386,982) was presented as of June 30, 2015. This balance was negatively affected primarily to by the implementation of GASB Statements No. 68 and 71, for the amount ($198,023,675). Other long-term debts, such as compensated absences ($12,382,877), and Municipal Revenue Collection Center Liquidations ($2,065,296), also affected the net position.

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

	Governmental Activities			
	2015	2014	Dollar Change	Percentage Change
Current and Other Assets (as Restated)	$ 99,200,218	$ 108,630,728	$ (9,430,510)	-8.68%
Capital Assets (as Restated)	441,118,631	452,009,472	(10,890,841)	-2.41%
Housing Units Held for Sale	988,673	-	988,673	100.00%
Idle Units Held for Future Use	102,567	-	102,567	100.00%
Loan Receivable, Net	444,014	730,383	(286,369)	-39.21%
Total Assets	541,854,103	561,370,583	(19,516,480)	149.70%
Deferred Outflows of Resources	11,426,811	3,441,006	7,985,805	232.08%
Current Liabilities (as Restated)	52,140,316	50,244,897	1,895,419	3.77%
Other Liabilities	454,452,133	452,909,135	1,542,998	0.34%
Total Liabilities	506,592,449	503,154,032	3,438,417	4.11%
Deferred Inflows of Resources	1,584,668	-	1,584,668	100.00%
Net Position:				
Net Invested of Capital Assets (as Restated)	267,268,049	280,137,995	(12,869,946)	-4.59%
Restricted (as Restated)	43,222,730	36,791,572	6,431,158	17.48%
Unrestricted (Deficit) (as Restated)	(265,386,982)	(255,272,010)	(10,114,972)	3.96%
Total Net Position	$ 45,103,797	$ 61,657,557	$ (16,553,760)	16.85%

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Unaudited

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

	Governmental Activities			
	2015	2014	Dollar Change	Percentage Change
Revenues:				
Program Revenues:				
Charges for Services	$ 1,175,432	$ 1,328,635	$ (153,203)	-11.53%
Operating Grants and Contributions	29,465,623	27,371,911	2,093,712	7.65%
Capital Grants and Contributions	2,181,931	2,022,386	159,545	7.89%
General Revenues:				
Property Taxes	50,700,722	51,678,096	(977,374)	-1.89%
Volume of Business Taxes	23,624,260	24,735,251	(1,110,991)	-4.49%
Sales and Usage Taxes	20,916,340	20,580,433	335,907	1.63%
Intergovernmental	13,567,369	14,012,671	(445,302)	-3.18%
Construction Excise Taxes	4,947,664	2,991,732	1,955,932	65.38%
Interest and Investment Income	756,516	981,420	(224,904)	-22.92%
Other	2,151,991	2,147,933	4,058	0.19%
Total Revenues	149,487,848	147,850,468	1,637,380	1.11%
Expenses:				
General Government	40,544,933	38,255,865	2,289,068	5.98%
Public Safety	11,954,408	9,804,511	2,149,897	21.93%
Public Works	23,525,790	22,565,224	960,566	4.26%
Cultural and Recreation	10,374,870	10,120,801	254,069	2.51%
Health and Welfare	12,543,232	11,994,232	549,000	4.58%
Economic and Social Development	9,328,833	8,199,012	1,129,821	13.78%
Housing	10,545,647	11,030,562	(484,915)	-4.40%
Sanitation and Environmental	16,387,879	15,347,716	1,040,163	6.78%
Education	20,033,373	17,028,422	3,004,951	17.65%
Interest	10,802,643	10,636,609	166,034	1.56%
Total Expenses	166,041,608	154,982,954	11,058,654	7.14%
Excess (deficiency) before extraordinary and special items:	(16,553,760)	(7,132,486)	(9,421,274)	132.09%
Extraordinary Items:				
Donated Capital Assets	-	66,911	(66,911)	-100.00%
Special Items:				
Contributions to Nonprofit Entity	-	(767,917)	767,917	-100.00%
Net Change in Net Position	(16,553,760)	(7,833,492)	(8,720,268)	111.32%
Net Position, Beginning of Year, as Restated	61,657,557	69,491,049	(7,833,492)	-11.27%
Net Position, Ending	$ 45,103,797	$ 61,657,557	$(16,553,760)	-26.85%

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Governmental Activities – Governmental activities decreased the Municipality's net position by $16,553,760. Key elements of this change in net position are the following:

Revenues:

- Total overall revenues increased by 1.11% over prior year. The following categories had the mayor changes from prior year:

    - Operating grants and contributions increased 7.65% over prior year – mainly by an increase in the funds received for the Head Start Program from the U.S. Department of Health and Human Services.

    - Construction Excise Taxes increased by 65.38% – for the second half of fiscal year 2014, the Municipality contracted external resources with the purpose of reviewing its contributor's financial statements and identifying deficiencies in the contributions received as construction excise taxes. This effort resulted in the collection of approximately $1 million until the end of fiscal year 2014. For fiscal year 2015, the effort was performed during the whole year and approximately $2 million were collected.

    - Property taxes decreased 1.89% - mostly as a result of a reduction of 13% of the revenue received from state appropriations.

    - Volume of Business Taxes decreased by 4.49% - the businesses within the Municipality had reduced sales during the fiscal year 2015 and therefore the taxes collections were decreased accordingly. Although many of them submitted their tax returns on time, they opted to postpone their contributions payments, which also affected collections of taxes for the year.

Expenses:

Total overall expenses had a net increase of 7.14% over prior year. This increase was mainly due to an increase of $6.7 million on the expenses related to the implementation of GASB Statement Nos. 68 and 71 during fiscal year 2015. In addition, the amount of $1.6 million was recognized as due to MRCC Property Tax Liquidation during the year.

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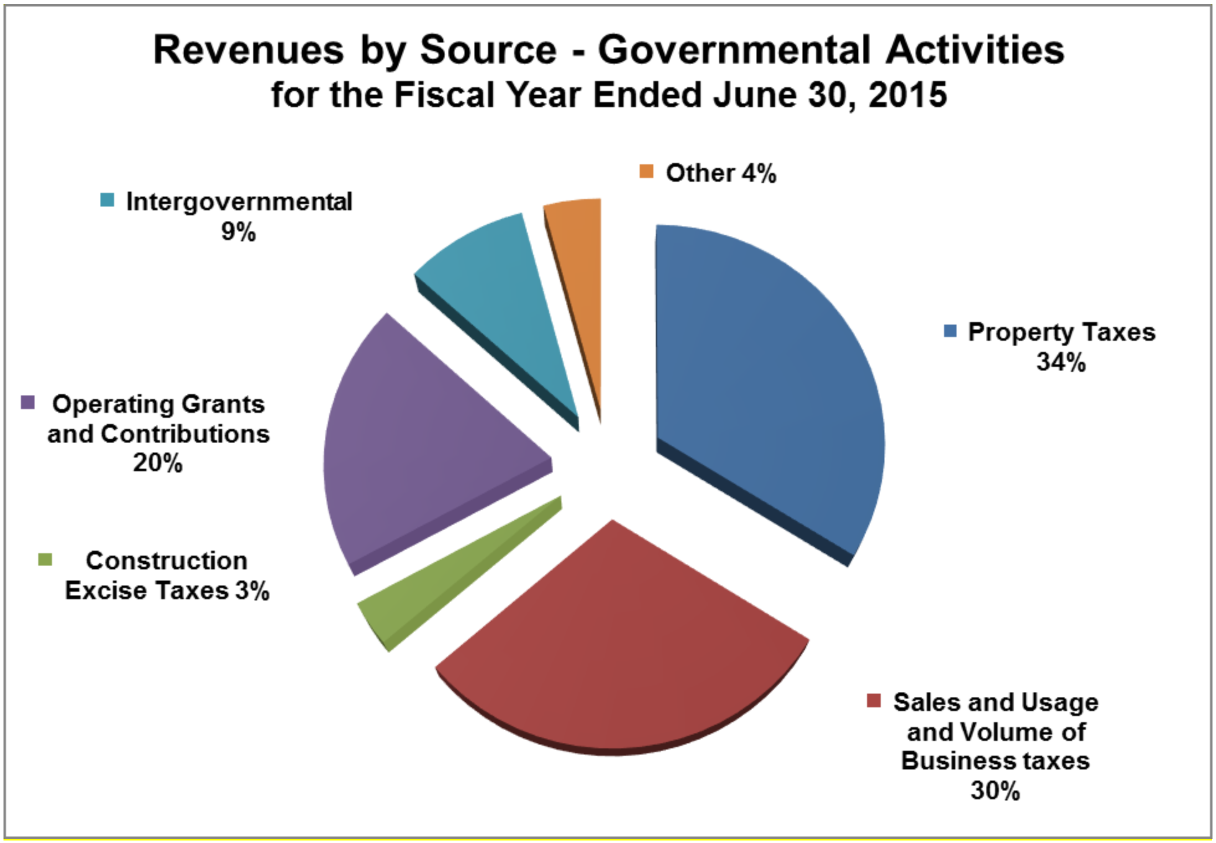

Financial Analysis of the Municipality's Funds

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, 2015, the governmental funds of the Municipality reported a combined fund balance of $47,685,739, as restated. This amount represents a decrease of $10,157,141 or 17.6% over last year. Following is a summary of the most relevant funds' changes when compared to prior year:

General Fund – The general fund revenues increased by $249 thousands and the expenditures decreased by approximately $1.2 million, in comparison from prior year. There was a significant reduction in the issuance of debt for the year of $3.6 million with respect from prior year, the transfer in of funds from the Debt Service of $3 million produced additional financial resources resulting in a net increase in fund balance of $2.8 million.

Capital Project Fund – Revenues from capital project fund decreased by $4.4 million, mainly due to a reduction in federal grants available during the year. Expenditures for this fund also decreased, showing a reduction of $7.4 million. This reduction was mainly caused by a decrease in the expenditures related to capital outlays of $7 million. The transfers of funds decreased by $4.7 million when compared with prior period, for a net change of expenditures over revenues of $5.9 million, approximately.

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Debt Service Fund – Revenue from debt service fund decreased by $3 million, mainly as a result of prior year collections of the property tax amnesty act of 2011. In the other hand, the fund's expenditures increased by $1 million caused by an increase in the debt service principal payments. The increased expenditures for the year and the reduction in revenues caused a negative net change of $5.6 million.

Health and Human Services Fund – Revenue from the HHS fund increased by almost $2 million, mainly due to an increase in federal grants received during the year. The expenditures increased accordingly by $2 million as well, as mentioned before it happened specifically under the Education governmental activity due to the start of a new project under the partnership with "Centros Infantiles Criollos" and with the expansion of the Early Head Start Program under the Municipality. The fund had a net change of expenditures over revenues of $67,638, for an ending fund balance of $27,512

Other Governmental Funds – Revenues decreased by $785 thousand, mainly due to a reduction in federal grants available during the year. The expenditures also decreased by $321 thousand resulting on a negative net change of $1.4 million.

General Fund Budgetary Highlights: During the fiscal year 2015, 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 2015 was $105,566,828 which is less than the prior year appropriations by $3,273,245 and which was later increased by $2,477,000.

- Actual budgetary transactions generated an excess of appropriations over resources of $1,604,852 due to the following:

    - Actual revenues were less than budgeted amounts by $4,677,512. This result was, mainly, as a combination of a decrease in construction excise taxes $5,077,560, and an increase in rent revenue and other sources for $1,299,043.

    - Actual appropriations resulted in an economy of $3,072,660. All functions presented economies, especially general government, which presented $1,330,037 in economies.

continue

	Original	Increases	Final
Resources:			
Property Taxes	$ 33,127,956	$ -	$ 33,127,956
Volume of Business Taxes	25,900,000	-	25,900,000
Sales and Usage Taxes	17,180,000	-	17,180,000
Fines and Penalties	620,000	-	620,000
Interest and Investment Income	650,000	-	650,000
Intergovernmental	13,978,417	-	13,978,417
Construction Excise Taxes	9,482,500	-	9,482,500
Rent and Other Resources	4,627,955	2,477,000	7,104,955
Amounts available for appropriation	105,566,828	2,477,000	108,043,828
Expenditures charged to appropriations:			
General Government	42,927,598	1,560,268	44,487,866
Public Safety	10,418,187	(600,931)	9,817,256
Public Works	11,928,256	2,250,921	14,179,177
Culture and Recreation	5,184,682	103,430	5,288,112
Health and Welfare	10,463,373	4,795	10,468,168
Economic and Social Development	4,998,457	(24,216)	4,974,241
Housing	860,525	(6,150)	854,375
Sanitation and Environmental	16,138,288	(693,667)	15,444,621
Education	2,647,462	(117,450)	2,530,012
Total charges to appropriations	105,566,828	2,477,000	108,043,828
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, 2015, total $441,118,631 (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 $15,830,350, and additions to infrastructure and other capital assets were $6,959,915. Retirements of capital assets during year were mainly vehicles and electronics for the amount of $1,287,001. Also, the Municipality retired from its Schedules of Capital Assets, construction units held for sale to low income families, constituents of the Municipality. These units previously represented $1,331,699 million in the Schedule of Buildings.

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

	Total			
	2015	2014 as restated	Dollar Change	Percentage Change
Capital assets not being depreciated				
Land and improvements	$ 95,525,121	$ 95,176,316	$ 348,805	0.37%
Construction in progress	6,008,652	3,533,799	2,474,853	70.03%
Works of art and historical treasures	2,261,726	2,217,567	44,159	1.99%
Total not being depreciated	103,795,499	100,927,682	2,867,817	72.39%
Capital assets net of depreciation				
Facilities and improvements	58,936,458	61,323,746	(2,387,288)	-3.89%
Buildings and improvements	71,049,710	75,014,607	(3,964,897)	-5.29%
Roads and streets	197,616,586	204,506,356	(6,889,770)	-3.37%
Equipment and vehicles	9,720,378	10,237,081	(516,703)	-5.05%
Total net of depreciation	337,323,132	351,081,790	(13,758,658)	-3.92%
Total capital assets net of depreciation	$ 441,118,631	$ 452,009,472	$ (10,890,841)	76.31%

Additional information on the Municipality's capital assets can be found on Note 12 of the Basic Financial Statements on pages 66-67.

Major additions to constructions in progress (disbursements of more than $100,000) as of June 30, 2015 are as follows:

Project	Amount
Construction of "Recreo Deportivo del Sureste"	$ 2,743,146
Construcción Hacienda Ramonita y Los Cubanos	212,885
	$ 2,956,031

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, the majority of the deferred outflows of resources reported are comprised of current year contributions to the retirement system. However, there may be some deferred outflows of resources attributable to the various components that impact pension changes, and can include investment changes amortization, changes due to actuarial assumptions, and differences between expected or actual experience.

Deferred Inflows of Resources

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

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

More detailed information about the Municipality's deferred outflows of resources and deferred inflows of resources is presented in Note 6 to the financial statements on page 64 of this report.

Long-Term Debt – As of June 30, 2015, the Municipality had total bonded debt outstanding of $260,896,522 all of which is debt backed by the full faith and credit of the Municipality.

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continue

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

	Governmental Activities		Dollar	Percentage
	2015	2014	Change	Change
General Obligations Bonds	$ 179,959,522	$ 190,044,936	$ (10,085,414)	-5.31%
Special Obligations Bonds	77,937,000	78,889,000	(952,000)	-1.21%
Federal Loans	3,000,000	3,400,000	(400,000)	-11.76%
Net Pension Liability	198,023,675	184,933,905	13,089,770	7.08%
Law No. 142-MRCC	1,465,429	1,510,908	(45,479)	-3.01%
PR Retirement System Administration	801,428	-	801,428	100%
Claims and Judgments	704,534	279,000	425,534	152.52%
MRCC-Property Taxes Liquidation	2,065,296	464,407	1,600,889	344.72%
Christmas Bonus	1,084,932	1,061,348	23,584	2.22%
Retainage Liability	292,498	-	292,498	100%
Compensated Absences	12,382,877	12,667,670	(284,793)	-2.25%
Total	$ 477,717,191	$ 473,251,174	$ 4,466,017	683.00%

The Municipality's debt related to General, Special and Federal obligations decreased by $11,437,416 (-4.2 %) during the fiscal year 2015. New debts were recognized during the year related to property taxes liquidations with the MRCC ($1,600,889), additional contribution to retirement system ($801,428), and retainage related to construction in progress projects ($292,498). Another significant increase in long term debts, is due to the implementation of GASB No. 68, which created a 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 68 through 72.

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 14 on page 67 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 similar to 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.

Economic and Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities: The consolidated budget for fiscal year 2014-2015 will be $159 million, representing a decrease of $3 million when compared with fiscal year ended June 30, 2015. 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.

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Current Assets:	
Cash and Investments	$ 40,161,947
Cash with Fiscal Agent	38,838,489
Amount to be Received	3,850,000
Receivables (Net):	
Sales and Usage Taxes	1,452,615
Volume of Business Taxes	195,997
Due from Government Units	2,069,311
Federal Grants	12,588,078
Other	43,781
Total Current Assets	99,200,218
Non-Current Assets:	
Loans Receivables, Net	444,014
Land, Improvement and Construction in Progress	103,795,499
Other Capital Assets [Net of Accumulated Depreciation]	337,323,132
Housing Units Held for Sale	988,673
Idle Units Held for Future Use	102,567
Total Non-Current Assets	442,653,885
TOTAL ASSETS	**541,854,103**
DEFERRED OUTFLOWS OF RESOURCES:	
Contributions to Employees Retirement System	11,426,811
TOTAL OUTFLOWS OF RESOURCES	**11,426,811**
LIABILITIES:	
Current Liabilities:	
Accounts Payable	7,405,211
Accrued Expense	1,084,932
Accrued Interest	3,638,237
Bonds Payable	16,490,414
Advance Deposits	1,090,433
Unearned Revenues - Volume of Business Taxes	16,741,377
Accrued Compensated Absences	3,912,704
Legal Claims	98,181
Due to Governmental Entities	1,678,827
Total Current Liabilities	52,140,316
Non-Current Liabilities:	
Bonds Payable	244,406,108
Accrued Compensated Absences	8,470,173
Legtal Claims	606,353
Due to Governmental Entities	2,653,326
Retainage Payable	292,498
Net Pension Liabilities	198,023,675
Total Non-Current Liabilities	454,452,133
TOTAL LIABILITIES	**506,592,449**

continue

	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	267,268,049
Restricted for:	
Capital Projects	4,497,441
Debt Service	12,275,763
Head Start Program	7,966,865
Other Purposes	18,482,661
Unrestricted (Deficit)	(265,386,982)
TOTAL NET POSITION	**$ 45,103,797**

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	$ 40,544,933	$ -	$ 149,999	$ 250,000	$ (40,144,934)
Public Safety	11,954,408	636,603	42,654	901,699	(10,373,452)
Public Works	23,525,790	-	1,114	1,030,232	(22,494,444)
Culture and Recreation	10,374,870	27,868	-	-	(10,347,002)
Health and Welfare	12,543,232	-	954,780	-	(11,588,452)
Economic and Social Development	9,328,833	409,708	2,073,363	-	(6,845,762)
Housing	10,545,647	1,400	9,007,064	-	(1,537,183)
Sanitation and Environmental	16,387,879	99,853	89,412	-	(16,198,614)
Education	20,033,373	-	17,147,237	-	(2,886,136)
Unallocated Interest	10,802,643	-	-	-	(10,802,643)
Total Governmental Activities	**$ 166,041,608**	**$ 1,175,432**	**$ 29,465,623**	**$ 2,181,931**	**(133,218,622)**

General Revenues:	
Taxes:	
PropertyTaxes, levied for General Purposes	33,479,167
PropertyTaxes, levied for Debt Service	17,221,555
Volume of Business Taxes	23,624,260
Sales and Usage Taxes	20,916,340
Construction Excise Taxes	4,947,664
Intergovernmental	13,567,369
Interest	756,516
Other General Revenues	2,151,991
Total General Revenues	116,664,862
CHANGES IN NET POSITION	**(16,553,760)**
Net Position – Beginning of Year, As Restated	61,657,557
NET POSITION – ENDING OF YEAR	**$ 45,103,797**

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

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	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	$ 27,724,041	$ 8,269,779	$ -	$ 472,973	$ 3,695,154	$ 40,161,947
Cash with Fiscal Agent	20,789	12,621,808	25,694,469	-	501,423	38,838,489
Amount to be Received	3,850,000	-	-	-	-	3,850,000
Receivables:						
Sales and Usage Taxes	1,452,615	-	-	-	-	1,452,615
Volume of Business Taxes	195,997	-	-	-	-	195,997
Due from Governmental Units	394,000	-	1,633,575	-	41,736	2,069,311
Federal Grants	-	1,307,592	-	8,851,646	2,428,840	12,588,078
Due from Other Funds	9,483,361	-	-	-	-	9,483,361
Loans Receivable	-	-	-	-	444,014	444,014
Other	43,719	-	-	-	62	43,781
Total Assets	**$ 43,164,522**	**$ 22,199,179**	**$ 27,328,044**	**$ 9,324,619**	**$ 7,111,229**	**$ 109,127,593**
LIABILITIES:						
Account Payable	$ 5,257,562	$ 1,489,610	$ -	$ 206,531	$ 451,508	$ 7,405,211
Bond Payable	-	-	12,230,414	-	-	12,230,414
Interest on Bonds Payable	-	-	3,638,237	-	-	3,638,237
Due to Other Funds	-	5,091,122	-	1,151,389	3,240,850	9,483,361
Advance Deposits	1,090,433	-	-	-	-	1,090,433
Unearned Revenues - Volume of Business Tax	16,741,377	-	-	-	-	16,741,377
Total Liabilities	**23,089,372**	**6,580,732**	**15,868,651**	**1,357,920**	**3,692,358**	**50,589,033**
DEFERRED INFLOWS OF RESOURCES:						
Unavailable Revenues:						
Commonwealth of Puerto Rico	294,000	-	-	-	-	294,000
Federal Grants	-	1,186,344	-	7,939,187	1,433,290	10,558,821
Total Deferred Inflows of Resources	**294,000**	**1,186,344**	**-**	**7,939,187**	**1,433,290**	**10,852,821**
FUND BALANCES:						
Restricted	2,791,023	12,880,627	11,459,393	27,512	3,181,754	30,340,309
Committed	8,731,817	-	-	-	264,273	8,996,090
Assigned	2,344,985	1,942,677	-	-	-	4,287,662
Unassigned (Deficit)	5,913,325	(391,201)	-	-	(1,460,446)	4,061,678
Total Fund Balances	**19,781,150**	**14,432,103**	**11,459,393**	**27,512**	**1,985,581**	**47,685,739**
Total Liabilities, Deferred Inflows of Resources and Fund Balances	**$ 43,164,522**	**$ 22,199,179**	**$ 27,328,044**	**$ 9,324,619**	**$ 7,111,229**	**$ 109,127,593**

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

Total Fund Balances – Government Funds (Page 25)		**$ 47,685,739**
Amount reported for Governmental Activities in the Statement of Net Position (Page 23) are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. In the current period, these amounts are:		
Non Depreciable Capital Assets	$ 103,795,499	
Depreciable Capital Assets	691,365,791	
Accumulated Depreciation	(354,042,659)	
Total Capital Assets		441,118,631
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	988,673	
Idle Units Held for Future Use	102,567	
Total Other Assets		1,091,240
Deferred Outflows of Resources in Governmental Activities are not recorded in the funds in the current period.		11,426,811
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	10,558,821	
Christmas Bonus	294,000	
Total Unavailable Revenues		10,852,821
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	(248,666,108)	
Net Pension Liability	(198,023,675)	
Compensated Absences	(12,382,877)	
MRCC- Property Taxes Liquidation	(2,065,296)	
Claims and Judgments	(704,534)	
Christmas Bonus	(1,084,932)	
Retainage Payable	(292,498)	
PR Retirement System Administration	(801,428)	
Law No. 42	(1,465,429)	
Total Long-Term Liabilities		(465,486,777)
Total Net Position of Governmental Activities (Page 23)		**$ 45,103,797**

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Property Taxes	$ 34,227,778	$ -	$ 17,261,832	$ -	$ -	$ 51,489,610
Volume of Business Taxes	23,624,260	-	-	-	-	23,624,260
Sales and Usage Taxes	17,606,080	-	3,310,260	-	-	20,916,340
Construction Excise Taxes	4,947,664	-	-	-	-	4,947,664
Federal Grants	1,381,058	1,900,679	-	13,180,322	11,081,218	27,543,277
Fines and Penalties	636,603	-	-	-	-	636,603
Intergovernmental	15,015,279	480,000	-	-	542,613	16,037,892
Interest	689,707	18,265	2,598	196	45,750	756,516
Rent and Other Services	438,781	-	-	-	268,402	707,183
Solid Waste Disposal	99,853	-	-	-	-	99,853
Other General Revenues	1,685,588	-	-	-	391,600	2,077,188
Total Revenues	**100,352,651**	**2,398,944**	**20,574,690**	**13,180,518**	**12,329,583**	**148,836,386**
EXPENDITURES:						
Current:						
General Government	35,716,381	62,878	-	-	343,601	36,122,860
Public Safety	9,735,949	-	-	-	539,333	10,275,282
Public Works	11,812,558	1,634,670	-	-	1,158,060	14,605,288
Culture and Recreation	5,618,689	-	-	-	-	5,618,689
Health and Welfare	11,261,876	152,994	-	336,691	390,753	12,142,314
Education	3,415,262	135,203	-	12,393,875	1,970,155	17,914,495
Sanitation and Environmental	15,186,477	319,693	-	-	12,316	15,518,486
Economic and Social Development	6,160,626	813,393	-	273	229,424	7,203,716
Housing	762,419	174,093	-	-	8,886,932	9,823,444
Capital Outlay	1,576,243	4,479,706	-	517,228	94,240	6,667,417
Debt Service:						
Principal	45,479	400,000	15,703,414	-	-	16,148,893
Interest and Other Charges	92,794	88,740	10,621,109	-	-	10,802,643
Total Expenditures	**101,384,753**	**8,261,370**	**26,324,523**	**13,248,067**	**13,624,814**	**162,843,527**
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	**(1,032,102)**	**(5,862,426)**	**(5,749,833)**	**(67,549)**	**(1,295,231)**	**(14,007,141)**

continue

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH AND HUMAN SERVICES FUND	OTHER NON MAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):						
Debt Issuances	$ 3,850,000	$ -	$ -	$ -	$ -	$ 3,850,000
Transfers – In	6,002,080	10,964	5,963,779	-	146	11,976,969
Transfers – Out	(5,974,800)	(4,992)	(5,852,786)	(89)	(144,302)	(11,976,969)
Total Other Financing Sources (Uses)	**3,877,280**	**5,972**	**110,993**	**(89)**	**(144,156)**	**3,850,000**
Net Change in Fund Balances	**2,845,178**	**(5,856,454)**	**(5,638,840)**	**(67,638)**	**(1,439,387)**	**(10,157,141)**
Fund Balances – Beginning,						
As Previously Reported	17,679,266	20,142,356	17,098,233	95,150	3,424,968	58,439,973
Restatement	(743,294)	146,201	-	-	-	(597,093)
Fund Balances – Beginning, as Restated	16,935,972	20,288,557	17,098,233	95,150	3,424,968	57,842,880
FUND BALANCES – ENDING	**$ 19,781,150**	**$ 14,432,103**	**$ 11,459,393**	**$ 27,512**	**$ 1,985,581**	**$ 47,685,739**

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

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

Net Change in Fund Balances – Government Funds (Page 28)		**$ (10,157,141)**
Amount reported for Governmental Activities in the Statement of Activities (Page 24) are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of 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	$ 6,667,417	
Depreciation Expense	(15,830,350)	
Excess of Capital Outlays over Depreciation Expense		(9,162,933)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Federal Grants	1,639,312	
CRIM - Property Taxes Liquidation	(788,888)	
Christmas Bonus	(198,962)	
Total Revenues		651,462
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.		(928,766)
Bonds proceeds provide current financial resources to governmental funds, but issuing debt increase Noncurent Liabilities in the Statement of Net Position. In the current period, proceeds received was		(3,850,000)
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		16,148,893
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:		
Increase in Legal Claims	(425,534)	
Increase in Christmas Bonus	(23,584)	
Increase in MRCC Property Taxes Liquidation	(1,600,889)	
Increase in Debt with the Retirement Plan System	(801,428)	
Increase in Net Pension Liability	(6,688,633)	
Decrease in Compensated Absences	284,793	
Total Additional Expenses		(9,255,275)
Change in Net Position of Governmental Activities (Page 24)		**$ (16,553,760)**

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

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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 the 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.

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.

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1. FINANCIAL REPORTING ENTITY – continuation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Statement Presentation

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

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

Required Supplementary Information – Management's Discussion and Analysis

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

Government-wide Financial Statements (GWFS)

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

The *Statement of Activities* presents a comparison between direct expenses and program revenues for 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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2015 about the current financial resources (assets, liabilities, deferred inflows of resources and fund balances) of each major governmental fund.

Statement of Revenues, Expenditures and Changes in Fund 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, 2015.

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

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

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

The Municipality reports its financial position (*Balance Sheet*) and results of operations [*Statement of Revenues, Expenditures and Changes in Fund 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 basis 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Required Supplementary Information – Employees Retirement System

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

B. Measurement Focus and Basis of Accounting

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

Government-wide Financial Statements

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

Governmental Funds Financial Statements

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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

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

C. Stewardship, Compliance, and Accountability

Budgetary Information

The Municipality's annually adopts the Budget Resolution for all operating funds of the Municipality except for certain restricted accounts (Unassigned Fund Balance up to the maximum of cash available). Budgetary control is legally maintained at the fund level. The budget is prepared using the modified accrual basis of accounting with encumbrance included as budgetary basis expenditures. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be re-appropriated for expenditures in the following fiscal year.

The Municipality's Budget Resolution provides transfer authority (1) to the Mayor and the Management and Budget Director, within and between departments and funds, as long as the total budget of the Municipality (net of interfund transfers) is not increased; (2) to the Management and Budget Director to implement grant budgets as the grant applications are accepted by the Municipality; and (3) to the Management and Budget Director to amend (re-appropriate) each new year's budget, to the extent of outstanding encumbrances, and/or unexpended project/grant appropriations at year end. Municipality's Legislature action is required for (1) use of the budgeted Legislature contingency, and (2) the approval of a supplemental appropriation(s). During the year, several supplemental appropriations were necessary.

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

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

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*:

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

   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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

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, follow 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 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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

Receivables consist of all revenues earned but not collected at June 30, 2015. These account receivables are shown net of estimated allowances for uncollectible accounts, which are determined upon past collection experience, historical trends, and current economic conditions. Receivables represent mostly contributions from sales and usage taxes corresponding to June revenues collected during July and August 2015. 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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2015, 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 into obligations extending beyond one fiscal year, and most lease agreements entered by the Municipality contain fiscal funding clauses or cancellation clauses that make the continuation of the agreements subject to future appropriations. The Municipality's lease agreements do not include contingent rental payments no escalation clauses. Accordingly, lease payments are recorded in the GWFS as expense when incurred.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

Note 6 provides details on deferred outflows of resources and deferred inflows of resources.

The Municipality has items, which arises only under a modified accrual basis of accounting that qualifies for reporting in deferred inflows of resources. Accordingly, the items, *unavailable revenue,* is reported only in the governmental funds *Balance Sheet*. The governmental funds report *unavailable revenues* from 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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, 2015. All vacation pay is accrued when incurred in the GWFS. For the GWFS, the current portion is the amount estimated to be used in the following year. For the GFFS, all of the compensated absences are considered long-term and therefore, are not a fund liability and represents a reconciling item between the fund level and government-wide presentations. Also, GFFS record expenditures when employees are paid for leave or the balance due in accrued upon the employee's separation from employment.

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*, 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

The Municipality implemented both GASB 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 accordingly.

Measurement Frequency and Valuation Requirements

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

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

Impact on the Financial Statements – Change in Accounting Principles

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

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

- The Net Position (total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources) at June 30, 2014 for the Municipality would have been $61,657,557, an $181,492,899 decrease (74.6%) from the previously reported net position of $243,150,456 (pre-GASB 68 implementation).

- Total Liabilities would have been $502,410,738 as of June 30, 2014, an increase of $184,933,905 or 58.3% compared to the previously reported $317,476,833 total liabilities (pre-GASB 68 implementation).

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- Under GASB No. 68, Pension Expense would have been $7,332,779, an increase of $3,891,773 or 113.1% compared to the annual pension cost of $3,441,006 under GASB No. 27 reported at June 30, 2014. Under GASB No. 68, the pension expense is measured as the difference between the net pension liabilities between two reporting periods.

- The Deferred Inflows of Resources was not available for the implementation of GASB Nos. 68 and 71. The budgeted pension contribution for fiscal 2014-2015 of $11,426,811 will be recognized as Deferred Outflow of Resources and $1,584,668 will be recognized as Deferred Inflow of Resources.

	Current Accounting Standards (GASB 27)	New Accounting Standards (GASB 68 & 71)	Impact of New Standards
Assets	$ 558,447,957	$ 558,447,957	No change
Deferred Outflow of Resources	-	3,441,006	An increase in estimated pension contribution in Fiscal Year 2014-2015
Liabilities	317,476,833	502,410,738	An increase of $184,933,905 (Net Pension Liability)
Deferred Inflow of Resources	-	-	No change
Net Position	243,150,456	61,657,557	A net decrease of ($181,492,899) to Net Position
Expenses	3,441,006	7,332,779	An increase of $3,891,773 ($10,773,785 - $3,441,006, contribution minus the pension expense)
Adjustments to Restated Beginning Net Position	(181,492,899)	-	A decrease of $181,492,899 to beginning Net Position

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

Methodology Implementation of the New Pension Standards is a change in accounting principle and will require recognition of a one-time prior period adjustment to restate the beginning net position. The total prior period adjustment on a government-wide basis is estimated to be $181,492,899 for governmental activities.

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

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- 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 GASBS No, 68, as amended, the state government of the Commonwealth is considered to be the sponsor of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (ERS), a multiemployer cost-sharing Defined Benefit Pension Plan and Defined Contribution Hybrid Program, in which the employees of the Municipality participate. The Municipality is considered a participant of these retirement systems since the majority of the participants in the aforementioned pension trust funds are employees of the Commonwealth and the basic financial statements of such retirement systems are part of the financial reporting entity of the Commonwealth. Act No. 3 was enacted on April 4, 2013, amended the Act No. 447 for the purpose of establishing a major reform of the ERS effective on July 1, 2013 (see Note 17).

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.

- *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	$441,118,631
Outstanding Balance on Related Debt	(185,334,606)
Unspent Capital Debt Proceeds	11,484,024
Net Investment in Capital Assets	$267,268,049

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

- *Restricted Net Position* – These result 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 spend because they are either (a) not spendable in form; or (b) legally or contractually required to be maintained intact.

- *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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

Policy on Assigning Funds

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

Policy on Unassigned General Fund Balance

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

Prioritization of Fund Balance Use

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

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

C) Components of Fund Balance

	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	-	-	-	-	842,511	842,511
Debt Repayments	54,948	-	11,459,393	-	-	11,514,341
Disaster Recovery	-	-	-	-	1,963	1,963
Drug Prevention Programs	-	-	-	-	38,657	38,657
Economic Development Purposes	191	-	-	-	-	191
Educational Assisted Programs	-	-	-	-	25,016	25,016
Energy Saving Loans	-	-	-	-	266,203	266,203
Head Start and Elderly Programs	-	-	-	27,512	-	27,512
Health Services	106,018	-	-	-	-	106,018
Housing Assisted Programs	-	-	-	-	1,074,605	1,074,605
Improvement to the City Hall Building	-	158,519	-	-	-	158,519
Improvements to Facilities and Buildings	555,012	-	-	-	1,368	556,380
Incentivized Voluntary Resignations Program	1,432,120	-	-	-	-	1,432,120
Incubator Program	-	-	-	-	271,006	271,006
Infrastructure Improvements	-	7,343,221	-	-	279,840	7,623,061
Recreational Activities	-	-	-	-	50,227	50,227
Recycling Projects	18,520	-	-	-	-	18,520
Reforestation Initiatives	-	-	-	-	12,885	12,885
Safety and Security Programs	-	-	-	-	162,124	162,124
Social Development Purposes	-	-	-	-	154,665	154,665
Sureste Sport Facility Construction	-	5,378,887	-	-	-	5,378,887
Transit Improvement Programs	-	-	-	-	684	684
Upgrade to Information System	624,214	-	-	-	-	624,214
Total Restricted	**2,791,023**	**12,880,627**	**11,459,393**	**27,512**	**3,181,754**	**30,340,309**
Committed To:						
Disaster Recovery	2,111,270	-	-	-	62,123	2,173,393
Economic Development Purposes	260,100	-	-	-	-	260,100
Improvement of Technology Programs	158,181	-	-	-	-	158,181
Improvement to Electrical Infrastructure	543,076	-	-	-	-	543,076
Infrastructure Improvements	-	-	-	-	143	143
Market Place Activities	265,740	-	-	-	-	265,740
Recreational Activities	174,030	-	-	-	-	174,030
Transcriollo Transportation Program	5,219,420	-	-	-	202,007	5,421,427
Total Committed	**8,731,817**	**-**	**-**	**-**	**264,273**	**8,996,090**

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

	GENERAL FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	HEALTH & HUMAN SERVICES FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assigned						
Building Maintenance	307,021	-	-	-	-	307,021
Economic Development Purposes	47,314	-	-	-	-	47,314
Educational Assisted Programs	52,443	-	-	-	-	52,443
Health Services	29,658	-	-	-	-	29,658
Housing Assisted Programs	422	-	-	-	-	422
Improvement of Building and Facilities	-	1,942,677	-	-	-	1,942,677
Improvement of Technology Programs	71,955	-	-	-	-	71,955
Infrastructure Improvements	58,655	-	-	-	-	58,655
Legal Services	128,221	-	-	-	-	128,221
Materials and Supplies	193,280	-	-	-	-	193,280
Payment of Legal Claims	3,394	-	-	-	-	3,394
Payroll Benefits	41,145	-	-	-	-	41,145
Purchase and Maintenance of Equipment	302,700	-	-	-	-	302,700
Recreational Activities	173,682	-	-	-	-	173,682
Recycling Projects	6,890	-	-	-	-	6,890
Reforestation Initiatives	1,400	-	-	-	-	1,400
Rentals	66,623	-	-	-	-	66,623
Safety and Security Programs	112,955	-	-	-	-	112,955
Social Development Purposes	126,744	-	-	-	-	126,744
Solid Waste Disposal	30,186	-	-	-	-	30,186
Support to Education	113,245	-	-	-	-	113,245
Transit Improvement Programs	204,198	-	-	-	-	204,198
Utilities	143,832	-	-	-	-	143,832
Vehicle Maintenance	9,778	-	-	-	-	9,778
Improvement to Facilities and Buildings	2,700	-	-	-	-	2,700
Consulting Services	116,544	-	-	-	-	116,544
Total Assigned	**2,344,985**	**1,942,677**	**-**	**-**	**-**	**4,287,662**
Unassigned (Deficit)	**5,913,325**	**(391,201)**	**-**	**-**	**(1,460,446)**	**4,061,678**
Total Fund Balances	**$ 19,781,150**	**$ 14,432,103**	**$ 11,459,393**	**$ 27,512**	**$ 1,985,581**	**$ 47,685,739**

E. Interfund Transactions

Interfund transactions are reflected as loans, reimbursements or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. The Municipality has the following types of transactions among funds:

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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

F. Risk Financing

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

The Municipality carries commercial insurance to cover property and casualty, theft, tort claims and other losses with private insurance company. Also, principal officials of the Municipality are covered under various surety bonds. Cost of insurance to the Municipality for the year ended June 30, 2015 amounted to $1,816,730, paid in full at the beginning of the fiscal year. The current insurance policies have not been cancelled or terminated.

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

The Municipality obtains workers compensation insurance though the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth of Puerto Rico. This insurance covers workers against injuries, disability or death because of work or employment-related accidents, or because of illness suffered as a consequence of their employment. Cost of insurance allocated to the Municipality and deducted from the gross property tax collections by the MRCC for the year ended June 30, 2015 amounted to $1,553,523.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

H. Reclassifications

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

I. Subsequent Events

In preparing the financial statements, the Municipality's management consider events and transactions subsequent to June 30, 2015, 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, 2015:

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

Fair Value Measurement

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

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

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

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

Fair Value Disclosures

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

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

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

This Statement also clarifies the application of certain provisions of Statements 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.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015 (FY 2015-2016). Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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

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

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:

- 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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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.

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.

continue

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continuation

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 reporting periods beginning after June 15, 2015 *(FY 2015-2016)*. Earlier application is encouraged.

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

3. 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 2014-2015, this difference was recorded as a long-term debt for the amount of $2,065,296.

continue

3. ANNUAL REVENUES – continuation

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.

The effective tax rate for the fiscal year ended June 30, 2015 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, 2015 the allocated expenses to the Municipality amounted to $1,414,012.

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.

continue

3. ANNUAL REVENUES – continuation

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.

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.

<u>Personal Property</u>

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.

<u>Real Property</u>

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, 50% of taxes payable must be paid within the first 15 days of each semester beginning with the first semester ending December 31.

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.

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.

continue

3. ANNUAL REVENUES – continuation

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

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

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.

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.

continue

3. ANNUAL REVENUES – continuation

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.

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, 2015, the pool cash account in commercial banks had a balance of $40.2 million of which $27.7 million in the General Fund, $472,973 in Health and Human Services Fund, $8.3 million in the Capital Projects Fund, and $3.7 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 $25.7 million that are restricted for the payment of the Municipality's debt service, as required by law. Cash with Fiscal Agent of $20,789 in the General Fund are restricted for future expenditures, $12.6 million in the Capital Projects Fund restricted to improvement of recreational facilities, and $501,423 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, 2015:

continue

4. CASH, CASH EQUIVALENTS – continuation

Credit Risk

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, the Municipality has invested only in cash equivalents of $40.2 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, 2015. Therefore, the Municipality's management has concluded that the credit risk related to any possible loss related to defaults by commercial banks on the Municipality's deposits is considered low at June 30, 2015.

Custodial Credit Risk 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, 2015, the Municipality has balances deposited in commercial banks amounting to $27.8 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 $38.8 million are uninsured and uncollateralized. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015. It is management's policy to only maintain deposits in banks affiliated to FDIC to minimize the custodial credit risk, except for GDB. During the past years, the GDB's liquidity and financial condition was adversely affected by, among other factors, a significant increase in credit spread for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital market access, and significant reduction of liquidity in the local Puerto Rico capital market. Accordingly, the GDB's credit rating was downgraded and maintained in "Credit Watch" with negative implications. These factors have resulted in significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges, and/or bond issuances. Therefore, the Municipality's management has concluded that at June 30, 2015, the custodial credit risk associated with the Municipality's cash and cash equivalents is considered low in commercial banks, but for GDB it's considered high.

Interest Rate Risk

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

Foreign Exchange Risk

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

Amount to be Received from Loans

The amount of $3.9 million, approximately, represents funds to be received in the next fiscal year for loans applied an approved before June 30, 2015 by the Municipality's Legislature and the Government Development Bank.

continue

5. UNEARNED REVENUES

Government-wide *Statement of Net Position* does not report *deferred inflows of resources*, but report *unearned* revenues for resources receive before it has a legal claim to them. Governmental funds balance sheet report *unearned revenues* in connection with cash collected for revenues that are not considered to be available to liquidate liabilities of the current period, corresponded to Volume of Business Taxes in the amount of $16,741,377.

6. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, the Municipality recognized deferred outflows of resources in the government-wide and fund statements. These items are a consumption of net position by the Municipality that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Municipality has items that are reportable on the Government-wide Statement of Net Position that are relates to outflows/inflows from changes in the Net Pension Liability (Note 17).

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 Outflows/Inflows of Resources reported in the basic financial statements were as follows:

Statement of Net Position:	
Deferred Outflows of Resources	
Contributions to ERS	$ 11,426,811
Deferred Inflows of Resources	
Unamortized Investment in ERS	$ 1,584,668

Balance Sheet:	
Commonwealth of Puerto Rico	$ 294,000
Federal Grants:	
Capital Projects Fund	1,186,344
Head Start Program	7,939,187
Other Governmental Funds	1,433,290
Total Deferred Inflows of Resources	$ 10,852,821

7. 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 $444,014, which were determined based upon past collection experience.

8. 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 federal financial assistance received from federal and state governments. The amount of contribution in lieu of tax for the year 2014-2015 was $10,647,180.

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.

continue

9. 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, 2015:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects	$ 5,091,122
	Health and Human Services Fund	1,151,389
	Other Governmental Funds	3,240,850
		$ 9,483,361

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

Payables to the general fund:

Capital Projects Fund – 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.

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, 2015:

Transferred Out	Amount	Purposes
General Fund	$ 5,963,779	Payment of Interest and Principal of Debt
Debt Service Fund	5,852,786	Transfer of Equity
Capital Project Fund	4,992	Transfer of Equity
General Fund	10,964	Capital Projects
Health & Human Services Fund	89	Transfer of Equity
General Fund	57	Transfer of Equity
Non Major Funds	144,302	Transfer of Equity
	$ 11,976,969	

10. DUE FROM GOVERNMENTAL UNITS

The due from governmental units for the fiscal year ended June 30, 2015, for the General Fund, corresponds to $294,000 from Puerto Rico Treasury Department for the Christmas Bonus, and $100,000 from the Commonwealth related to Law 52. For the Debt Service fund corresponds to payments not received of property taxes. For the Other Governmental Funds, the $41,736 corresponds to a receivable from another governmental unit.

continue

11. FEDERAL GRANTS RECEIVABLE

The due from federal grants of the Capital Projects Fund for the fiscal year ended June 30, 2015 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 $8,851,646. The amount reported on Other Governmental Funds correspond mainly to the Home Investment Partnership Program for the amount of $1,585,846 and to the Emergency Shelter Grant Program for the amount of $350,577, both from the US Department of Housing and Urban Development, and $492,417 in other Federal programs.

12. CAPITAL ASSETS

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

DESCRIPTION	BALANCE JULY 1, 2014	ADJUSTMENT	RECLASSI-FICATION	INCREASE	DECREASE	BALANCE JUNE 30, 2015
Non-Depreciable Capital Assets:						
Land and Improvements	$ 95,176,316	$ -	$ 173,000	$ 175,805	$ -	$ 95,525,121
Construction in Progress	3,566,329	(32,530)	(794,140)	3,560,605	(291,612)	6,008,652
Works of Art	2,217,567	-	-	44,159	-	2,261,726
Total Non-Depreciable Capital Assets	100,960,212	(32,530)	(621,140)	3,780,569	(291,612)	103,795,499
Depreciable Capital Assets:						
Facilities and Improvements	124,439,152	(2,525,340)	472,831	576,331	-	122,962,974
Buildings and Improvements	122,729,736	1,108,068	(73,000)	949	(1,331,699)	122,434,054
Infrastructure	414,758,948	(83,335)	66,309	730,033	-	415,471,955
Equipment and Vehicles	29,756,776	-	155,000	1,872,033	(1,287,001)	30,496,808
Total Depreciable Capital Assets	691,684,612	(1,500,607)	621,140	3,179,346	(2,618,700)	691,365,791
Less Accumulated Depreciation:						
Facilities and Improvements	(63,056,574)	2,466,508	-	(3,436,450)	-	(64,026,516)
Buildings and Improvements	(48,823,392)	195	-	(2,611,847)	50,700	(51,384,344)
Infraestructure	(210,252,592)	83,335	-	(7,686,112)	-	(217,855,369)
Equipment and Vehicles	(21,279,219)	1,759,524	-	(2,095,941)	839,206	(20,776,430)
Total Accumulated Depreciation	(343,411,777)	4,309,562	-	(15,830,350)	889,906	(354,042,659)
Total Depreciable Capital Assets (Net)	348,272,835	2,808,955	621,140	(12,651,004)	(1,728,794)	337,323,132
CAPITAL ASSETS, NET	**$449,233,047**	**$ 2,776,425**	**$ -**	**$ (8,870,435)**	**$ (2,020,406)**	**$441,118,631**

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 21 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.

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continue

12. CAPITAL ASSETS – continuation

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

	AMOUNT
Governmental Activities:	
General Government	$ 835,385
Public Safety	191,305
Public Works (Mainly Streets)	7,971,492
Culture and Recreation	4,232,214
Health and Welfare	113,619
Sanitation and Environmental	990,139
Education	151,779
Housing	71,211
Economic Development	1,273,206
Total Depreciation Expenses	$15,830,350

13. OTHER NON-CURRENT ASSETS

The Municipality reported during this year property held for future sale as other non-current assets. These property was acquired with the intent of selling them to low income families, constituents of the Municipality.

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.

14. DEBT MARGIN

The legal debt margin of the Municipality is equal to 10% of the total property assessment located within the municipality's jurisdiction. Following are the assessed values of the real and personal property as of June 30, 2015:

	Real Property	Personal Property	Total
Taxable	$ 7,181,187,980	$ 442,402,043	$ 7,623,590,023
Exempt	(600,587,180)	(118,486,504)	(719,073,684)
Exonerated	(3,303,136,910)	(3,108,249)	(3,306,245,159)
Net value	$ 3,277,463,890	$ 320,807,290	$ 3,598,271,180

Accordingly, as of June 30, 2015, the Municipality debt limits (10% of valuation of property subject to taxation) increase to $762,359,002, plus the balance of the special ad valorem taxes in the Debt Service Fund. In addition, before any new bonds are issued, the revenues of the Debt Service Fund should be sufficient to cover the projected debt service requirement. The total amount of debt applicable to the debt limit was $179,959,522, net of certain assets in the Debt Service Fund. After considered the payments of July 1, 2015, the resulting legal debt margin was $607,138,815. Additional legal debt margin was determine for the issuance of the special obligations bonds that are paid through retention made by the MRCC from monthly advance of annual property tax and subsidy send to the Municipality.

continue

15. LONG-TERM DEBTS

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

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
General Obligation Bonds:					
Property Taxes Income:					
General Construction	1996	$ 15,955,000	2015	4.70% to 8.00%	$ 1,505,000
General Construction	1998	2,200,000	2018	5.62%	503,000
General Construction	2000	776,000	2019	4.50%	214,027
General Construction	2000	13,300,000	2016	4.87% to 6.34%	2,530,000
General Construction	2000	10,350,000	2026	2.70% to 7.81%	6,505,000
General Construction	2000	3,150,000	2024	2.70% to 7.81%	1,980,000
General Construction	2002	9,845,000	2026	2.70% to 5.60%	6,825,000
General Construction	2002	125,000	2026	2.70% to 5.60%	60,000
General Construction	2002	1,360,000	2026	2.70% to 5.60%	910,000
General Construction	2004	9,900,000	2028	1.61% to 5.31%	6,955,000
General Construction	2004	1,575,000	2028	2.36% to 5.31%	1,145,000
General Construction	2005	460,000	2029	2.53% to 5.31%	340,000
General Construction	2005	370,000	2029	2.53% to 5.31%	280,000
General Construction	2005	1,610,000	2024	4.17% to 5.28%	1,000,000
General Construction	2006	9,910,000	2021	1.53% to 6.62%	5,385,000
General Construction	2005	1,640,000	2030	4.50%	1,188,000
General Construction	2005	500,000	2030	4.75%	366,000
General Construction	2006	11,020,000	2025	0.32% to 5.00%	7,455,000
General Construction	2006	11,015,000	2025	0.52% to 5.00%	7,470,000
General Construction	2007	8,060,000	2031	0.45% to 6.32%	6,450,000
General Construction	2006	2,695,650	2031	4.75%	2,058,650
General Construction	2007	7,575,000	2026	0.36% to 5.54%	5,465,000
General Construction	2008	624,000	2030	4.50%	482,000
Operational Purpose	2010	9,740,000	2034	4.75% to 7.50%	8,905,000
Operational Purpose	2010	975,000	2016	5.00% to 7.50%	330,000
General Construction	2010	255,000	2016	5.00% to 7.50%	85,000
General Construction	2011	2,285,000	2035	3.65% to 7.50%	2,140,000
General Construction	2011	730,000	2035	3.08% to 7.50%	685,000
General Construction	2011	330,000	2035	3.65% to 7.50%	310,000
General Construction	2011	2,480,000	2035	3.65% to 7.50%	2,320,000
General Construction	2011	3,525,000	2030	3.65% to 7.50%	3,295,000
Operational Purpose	2011	20,540,000	2035	3.65% to 7.50%	19,200,000
General Construction	2012	18,285,000	2036	3.47% to 7.50%	16,090,800

continue

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	2012	815,000	2021	3.36% to 7.50%	570,500
General Construction	2012	245,000	2036	0.37% to 7.50%	215,600
General Construction	2012	2,015,000	2018	3.38% to 7.50%	1,151,429
General Construction	2012	615,000	2018	3.38% to 7.50%	351,429
General Construction	2012	9,760,000	2018	3.35% to 7.50%	9,295,000
General Construction	2012	279,900	2037	4.50%	265,000
General Construction	2013	1,505,000	2037	6.00% to 7.50%	1,460,000
General Construction	2013	3,120,000	2030	4.25%	2,764,000
General Construction	2013	135,000	2019	6.00% to 7.50%	105,000
Refinancing	2014	506,847	2016	3.70% to 7.50%	351,847
Refinancing	2014	802,435	2017	3.80% to 7.50%	627,435
Refinancing	2014	249,680	2017	3.80% to 7.50%	194,680
Refinancing	2014	691,456	2034	3.95% to 7.50%	676,456
Refinancing	2014	982,565	2034	3.95% to 7.50%	962,565
Refinancing	2014	1,494,375	2035	3.95% to 7.50%	1,464,375
Refinancing	2014	721,569	2035	3.95% to 7.50%	706,569
Refinancing	2014	485,660	2035	3.95% to 7.50%	475,660
Refinancing	2014	992,583	2035	3.95% to 7.50%	972,584
Refinancing	2014	7,766,712	2035	4.05% to 7.50%	7,621,712
General Construction	2014	12,975,204	2036	3.95% to 7.50%	12,750,204
Operational Purpose	2014	9,450,000	2038	6.00% to 7.50%	9,300,000
Operational Purpose	2014	1,485,000	2020	6.00% to 7.50%	1,315,000
General Construction	2014	5,930,000	2040	6.00% to 7.50%	5,930,000
Subtotal					**179,959,522**
Special Obligations Bonds:					
General Revenues:					
General Construction	2002	$ 2,065,000	2027	3.66% to 6.41%	$ 1,385,000
General Construction	2002	5,185,000	2027	3.66% to 6.41%	3,465,000
General Construction	2002	15,385,000	2027	3.66% to 6.41%	10,290,000
General Construction	2006	10,015,000	2025	5.00% to 5.58%	6,210,000
General Construction	2007	8,575,000	2024	1.53% to 6.73%	5,315,000
General Construction	2007	10,075,000	2026	5.84% to 6.07%	7,015,000
General Construction	2007	500,000	2022	1.53% to 7.50%	303,000
General Construction	2008	3,185,000	2032	3.89% to 5.82%	2,585,000
General Construction	2008	7,750,000	2024	4.16% to 5.72%	4,950,000
General Construction	2009	6,802,000	2033	1.53% to 7.50%	5,920,000
Operational Purpose	2014	3,805,000	2038	6.00% to 7.50%	3,695,000
Operational Purpose	2015	3,850,000	2030	6.00% to 8.00%	3,850,000
Subtotal					**54,983,000**

continue

15. LONG-TERM DEBTS – continuation

Type of Obligation and Purpose	Issue Date	Original Borrowing	Maturity Date	Interest Rate	Balance Amount
Sales & Usage Taxes:					
Operational Purpose	2008	7,135,000	2015	1.53% to 7.50%	1,255,000
General Construction	2009	8,770,000	2033	1.48% to 7.50%	7,750,000
General Construction	2009	542,000	2033	1.48% to 7.50%	484,000
General Construction	2010	4,710,000	2034	4.75% to 7.50%	4,310,000
General Construction	2012	385,000	2018	6.00% to 7.50%	250,000
General Construction	2012	2,040,000	2019	6.00% to 7.50%	1,565,000
Operational Purpose	2014	7,445,000	2038	6.00% to 7.50%	7,340,000
Subtotal					**22,954,000**
Total Special Obligations Bonds					**77,937,000**
Section 108 Loan - CDBG:					
General Construction	2002	12,995,000	2022	7.50%	**3,000,000**
Total General and Special Obligations Bonds					**$ 260,896,522**

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, 2015 consist of a note payable in annual installments fluctuating from $200,000 to $600,000 bearing interest at 7.5% secured by real estate property owned by the Municipality.

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

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
General Obligations Bonds	$ 190,044,936	$ -	$ (10,085,414)	$ 179,959,522	$ 10,733,414	$ 169,226,108
Special Obligations Bonds	78,889,000	3,850,000	(4,802,000)	77,937,000	5,157,000	72,780,000
Federal Loans	3,400,000	-	(400,000)	3,000,000	600,000	2,400,000
Net Pension Liability	184,933,905	19,342,173	(6,252,403)	198,023,675	-	198,023,675
Other Obligations	15,983,333	10,719,023	(7,905,362)	18,796,994	6,774,644	12,022,350
TOTAL	**$ 473,251,174**	**$ 33,911,196**	**$ (29,445,179)**	**$ 477,717,191**	**$ 23,265,058**	**$ 454,452,133**

continue

15. LONG-TERM DEBTS – continuation

As of June 30, 2015, debt service requirements for the above long-term debt are as follows:

	General Obligation Bonds		Special Obligation Bonds		Federal Loans		Other Obligations		Total	
Year Ending June 30,	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal Payment	Interest Payment	Principal	Interest
2016	$ 10,733,414	$ 11,336,125	$ 5,157,000	$ 5,002,019	$ 600,000	$ 78,540	$ 6,774,644	$ 89,936	$ 23,265,058	$ 16,505,620
2017	9,773,261	10,807,441	4,265,000	4,887,870	600,000	63,960	1,287,606	86,900	15,925,867	15,846,171
2018	8,549,529	10,392,116	4,502,000	4,616,202	600,000	47,250	54,602	83,672	13,706,131	15,139,240
2019	17,014,443	9,542,743	4,774,000	4,326,600	600,000	29,160	58,032	80,242	22,446,475	13,978,745
2020	8,323,700	8,990,276	4,989,000	3,887,216	600,000	9,900	61,678	76,595	13,974,378	12,963,987
2021-2025	44,627,000	44,005,895	26,370,000	14,974,983	-	-	371,627	319,742	71,368,627	59,300,620
2026-2030	37,456,000	23,751,462	14,652,000	7,297,104	-	-	504,001	187,366	52,612,001	31,235,932
2031-2035	31,198,671	11,453,635	10,098,000	2,916,639	-	-	315,780	29,903	41,612,451	14,400,177
2036-2040	12,283,504	1,402,502	3,130,000	487,876	-	-	-	-	15,413,504	1,890,378
Unmatured	-	-	-	-	-	-	207,392,699	-	207,392,699	-
TOTAL	$ 179,959,522	$ 131,681,195	$ 77,937,000	$ 48,396,509	$ 3,000,000	$ 228,810	$ 216,820,669	$ 954,356	$ 477,717,191	$ 181,260,870

Arbitrage Rebate Requirement

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

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.

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, 2015:

DESCRIPTION	BALANCE JULY 1, 2014	NEW ISSUES	RETIREMENTS AND ADJUSTMENTS	BALANCE JUNE 30, 2015	AMOUNTS DUE WITHIN ONE YEAR	AMOUNTS DUE AFTER ONE YEAR
Governmental Funds:						
Law No. 142-MRCC	$ 1,510,908	$ -	$ (45,479)	$ 1,465,429	$ 48,336	$ 1,417,093
PR Retirement System Administration	-	801,428	-	801,428	801,428	-
Claims and Judgments	279,000	425,534	-	704,534	98,181	606,353
MRCC-Property Taxes Liquidation	464,407	1,600,889	-	2,065,296	829,063	1,236,233
Christmas Bonus	1,061,348	1,084,932	(1,061,348)	1,084,932	1,084,932	-
Retainage Liability	-	292,498	-	292,498	-	292,498
Compensated Absences	12,667,670	6,513,742	(6,798,535)	12,382,877	3,912,704	8,470,173
TOTAL	$ 15,983,333	$ 10,719,023	$ (7,905,362)	$ 18,796,994	$ 6,774,644	$ 12,022,350

continue

15. LONG-TERM DEBTS – continuation

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 2014-2015 result in a payable to the MRCC in the amount of $1,600,889.

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 is presented as due within one year when the Municipal Legislature approved it in the next fiscal year budget.

Christmas Bonus

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

Compensated Absences

The GWFS, Statement of Net Position, includes approximately $12.4 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 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.

continue

16. DEBT RETIREMENT – continuation

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

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

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

17. 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

Defined Benefit Plan

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

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

continue

17. RETIREMENT PLANS – continuation

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.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the Defined Benefit Program and the Define Contribution Hybrid Program, and were rehired on or after July 1, 2013, become members of the Define Contribution Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs will become part of the Define Contribution Hybrid Program. Each member has a no forfeitable right to the value of his/her contributions to the Define Contribution Hybrid Program. The assets of the Define Benefit Program, the Define Contribution Program and the Define Contribution Hybrid Program are pooled and invested by the ERS. Future benefit payments will be paid from the same pool of assets. In addition, employers' contributions for members hired on or after January 1, 2000 will be used by the ERS to reduce the unfunded status of the Define Benefit Program.

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

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

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

Participant of the Program

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

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

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

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

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

Annuity for Years of Service

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

Benefits Provided

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

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

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

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

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

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

Pension Computation

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

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

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

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

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

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

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

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

Funding Policy

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

Contributions of Participants of Defined Benefit Program

Contribution requirements are established by law and are as follows:

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

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

continue

17. RETIREMENT PLANS – continuation

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

Contributions of Participants of Hybrid Program

Contribution requirements are established by law and are as follows:

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

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

(1) Effective July 1, 2013, shall contribute 7.00% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

(2) Effective July 1, 2014, shall contribute 8.50% of their salaries up to $6,600 plus 10.00% of the excess over $6,600.

(3) Effective July 1, 2015, shall contribute 10.00% of their full salaries.

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

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

Employer Contributions to the System (ERS and Hybrid Program)

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

continue

17. RETIREMENT PLANS – continuation

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

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

As mentioned above, the Municipality is required to an Additional Uniform Contribution as per Act No. 32.

Death, Disability or Terminal Illness Benefits

Death of a Participant in Active Service

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

Death of a Pensioner

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

Separation from Service for Disability or Terminal Illness

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

continue

17. RETIREMENT PLANS – continuation

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

Disability Insurance

The Administrator, with the approval of the Board, shall establish a disability benefits program, which shall provide a temporary annuity in the event of total and permanent disability. Disability benefits may be provided through one or more disability insurance contracts with one or more insurance companies authorized by the Insurance Commissioner of Puerto Rico to conduct business in Puerto Rico. The determination as to whether a person is partially or totally and permanently disabled, shall be made by the insurance company that issues the insurance policy covering the person. All the participants of the Program who are employees shall avail themselves to the disability benefits program in the manner and form established by the Administrator. During fiscal year 2014-2015 the disability insurance amounted to approximately $329,000.

Additional Benefits Program

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

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

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

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability. The Net Pension Liability of each of the plan program is measured as of June 30, 2014, and the Total Pension Liability for each plan program used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the 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, 2015, the Municipality reported $198,023,675 as Net Pension Liability for its proportionate shares of the Net Pension Liability of ERS.

The Municipality Net Pension Liability for each plan program is measured as the proportionate share of the Net Pension Liability but the information for each program are not available. The Net Pension Liability is measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Municipality's proportion of the Net Pension Liability was based on a projection of the Municipality's long-term share of contributions to the pension plans program relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Municipality's proportionate share was 0.65806%. The Municipality's proportionate share of the Net Pension Liability as of June 30, 2015 was as follows:

	Proportionate Share of Net Pension Liabiliy
Act Number 447	$ 156,186,030
Act Number 1	28,439,393
Act Number 305	13,398,252
Total Net Pension Liability	$ 198,023,675

For the fiscal year ended June 30, 2015, the Municipality recognized pension expense of $11,356,368. As of June 30, 2015, the Municipality reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

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continue

17. RETIREMENT PLANS – continuation

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 3,441,006	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	-
Net differences between projected and actual earnings on plan investments	7,985,805	1,584,668
Total	$ 11,426,811	$ 1,584,668

$11,426,811 reported as Deferred Outflows of Resources related to contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	
2016	$ 316,934
2017	316,934
2018	316,934
2019	316,934
2020	316,932
Thereafter	1,584,668

Actuarial Assumptions

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

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

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

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

continue

17. RETIREMENT PLANS – continuation

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

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

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

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

Illiquid Assets

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

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

Net Pension Liability	June 30, 2014	
	Total	Proportional Share (0.65806%)
Total Pension Liability	$30,219,517,000	$198,862,623
Fiduciary Net Position	127,488,000	838,879
Net Pension Liability	30,092,029,000	198,023,675
Fiduciary Net Position as a % of Total Pension Liability	0.42%	0.42%
Covered Payroll	$ 3,489,096,000	$25,744,720
Net Pension Liability as a % of Covered Payroll	862.46%	769.18%

continue

17. RETIREMENT PLANS – continuation

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

Discount Rate

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

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

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.

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continue

17. 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, 2013	$28,941,368,000	$ 701,361,000	$28,240,007,000	$184,933,905
Changes for the year:				
Service Cost	419,183,000	-	419,183,000	2,758,476
Interest on Total Pension Liability	1,321,478,000	-	1,321,478,000	8,696,118
Effect of Plan Changes	-	-	-	-
Effect of Economic/Demographic (Gains) or Losses	(61,855,000)	-	(61,855,000)	(407,043)
Effect of Assumptions Changes or Inputs	1,198,308,000	-	1,198,308,000	7,885,586
Benefit Payments	(1,598,965,000)	(1,598,965,000)	-	-
Administrative Expenses	-	(29,530,000)	29,530,000	194,325
Other Expenses	-	(25,875,000)	25,875,000	170,273
Costs of Bonds	-	(192,947,000)	192,947,000	1,269,707
Member Contributions	-	359,862,000	(359,862,000)	(2,368,108)
Net Investment Income	-	253,558,000	(253,558,000)	(1,668,564)
Employer Contributions	-	660,024,000	(660,024,000)	(3,441,000)
Balance as of June 30, 2014	**$30,219,517,000**	**$ 127,488,000**	**$30,092,029,000**	**$198,023,675**

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

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

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

The following presents the Municipality's proportionate share of the Net Pension Liability, 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% Decrease 3.29%	Current Discount Rate 4.29%	1% Increase 5.29%
Total Pension Liability	$225,529,215	$198,862,623	$176,779,748
Fiduciary Net Position	838,879	838,879	838,879
Net Pension Liability	$224,690,336	$198,023,675	$175,940,869

Payable to the Pension Plan

At June 30, 2015, the Municipality reported a payable of $801,428 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

continue

17. RETIREMENT PLANS – continuation

Pension Plan Fiduciary Net Position

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

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.

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.

continue

17. RETIREMENT PLANS – continuation

Total contributions to the Plan for fiscal year ended December 31, 2014 (the last available financial information) were $187,637 (Sponsor) and benefits paid were $157,203. Investment revenues were $57,689 and net appreciation in fair value of investments were $12,041, for a net increase in Plan Assets of $100,164. As December 31, 2014 the Net Fund Assets of the Plan is $2,414,940.

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.

18. COMMITMENTS

Construction and Improvement Commitments

Fund	Encumbered For	Amount	Reported within Fund Balance Classification
Capital Projects Fund	Complejo Recreo Deportivo del Sureste	$ 4,726,616	Restricted for Building and Facilities
	Sistema Distribución de Agua Bo. Tomas de Castro	894,444	Restricted to Infrastructure Improvement
	Sistema de Alcantarillado Sanitario Pluvial Quebrada Villa Nueva	283,122	Assigned for Infrastructure Improvement
	Construcción 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, 2015 amounted to approximately $397,444.

Future operating lease commitments are scheduled as follows:

Fiscal Year	Amount
2016	$ 490,207
2017	224,863
2018	222,559
2019	85,771
2020	80,907
Total	$ 1,104,308

continue

18. COMMITMENTS – continuation

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%).

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, 2015 for this service under the terms of this contract amounts to approximately $9.6 million.

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

Fiscal Year	Amount
2016	$ 5,743,964
2017	5,743,964
2018	5,743,964
2019	5,743,964
2020	2,871,982
Total	$ 25,847,838

Other Commitments

At June 30, 2015, the non-major Special Revenue Funds had a deficit of $1,460,446 as follows: Social & Welfare Activities Fund $193,678, and Economic Development Activities Fund $1,266,768. 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

18. 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 2014-2015 the Municipality contributed $194,025 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 2014-2015, the Municipality made contributions to CCECI for a total of $412,657 to cover operating expenses.

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 $1,408,000 to INTECO, from which $825,000 were related to a contribution for operating expenses of the School, $440,000 for the planning and design of the Train of Caguas, and $287,000 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.

continue

18. COMMITMENTS – continuation

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 2014-2015 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 2014-2015, the Municipality contributed $300,000 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.

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, 2014 the Municipality received HAP's assistance payments in the amount of approximately $7.1 million. No significant changes are expected during the subsequent fiscal year.

continue

19. 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 $704,534 in the government-wide statements for anticipated unfavorable judgments or future disbursements.

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.

20. 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 $8.0 million for the fiscal year ended June 30, 2015.

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continue

21. NET POSITION / FUND BALANCES RESTATEMENTS

A. Net Position Restatements

For the year ended June 30, 2015, the Municipality adjusted net position for reclassification and other adjustments to capital assets, cancelled checks.

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

	GOVERNMENTAL ACTIVITIES
Net Position, as Previously Reported, At June 30, 2014	$ 240,971,124
Implementation of GASB No. 68	(181,492,899)
Adjustments to Capital Assets	2,776,425
Understatement of Accounts Payable	(743,294)
Unrecorded Cash	146,201
Beginning Net Position, as Restated, At July 1, 2014	**$ 61,657,557**

B. Fund Balance Restatements

Reclassifications of Fund Balances

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

	GENERAL FUND	CAPITAL PROJECT FUND
At June 30, 2014	$ 17,679,266	$ 20,142,356
Understatement of Accounts Payable	(743,294)	-
Unrecorded Cash	-	146,201
Beginning Fund Balance, As Restated, At July 1, 2014	**$ 16,935,972**	**$ 20,288,557**

continue

22. RECENTLY ADOPTED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

continue

22. RECENTLY ADOPTED ACCOUNTING STANDARDS – continuation

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

23. SUBSEQUENT EVENTS

On February 9, 2016, the Municipality received a letter of approval from the Governmental Development Bank of Puerto Rico (the GDB) in order to contract a 10 years loan of $2,000,000 for the improvement for rural roads thru Special Additional Contribution (CAE), with an interest rate of 3.625%. In addition, another approval from the GDB was received to contract a 7 years loan of $1,000,000 to finance the acquisition of vehicles thru Special Additional Contribution (CAE), with an interest rate of 3.625%.

In preparing these financial statements, the Municipality has evaluated significant transactions for potential recognition or disclosure through March 23, 2016, the date the financial statements were issued. Based on such analysis, no additional transaction need to be recorded or disclosed.

END OF NOTES

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Required Supplementary Information

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SCHEDULE OF REVENUES AND EXPENDITURES BUDGET AND ACTUAL – GENERAL FUND NON GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Budget Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis) (See Notes 1 and 2)	Final Budget
Resources (Inflows):				
Property Taxes	$ 33,127,956	$ 33,127,956	$ 33,127,956	$ -
Volume of Business Taxes	25,900,000	25,900,000	24,804,744	(1,095,256)
Sales and Usage Taxes	17,180,000	17,180,000	17,619,688	439,688
Construction Excise Taxes	9,482,500	9,482,500	4,404,940	(5,077,560)
Intergovernmental Revenues	13,978,417	13,978,417	13,827,614	(150,803)
Interest	650,000	650,000	641,405	(8,595)
Rent and Other Resources	4,627,955	7,104,955	8,403,998	1,299,043
Fines and Penalties	620,000	620,000	535,971	(84,029)
Total Resources (Inflows)	105,566,828	108,043,828	103,366,316	(4,677,512)
Charges to Appropriations (Outflows):				
General Government	42,927,598	44,487,866	43,157,829	1,330,037
Public Safety	10,418,187	9,817,256	9,410,030	407,226
Public Works	11,928,256	14,179,177	13,662,370	516,807
Culture and Recreation	5,184,682	5,288,112	5,139,210	148,902
Health and Welfare	10,463,373	10,468,168	10,389,072	79,096
Economic and Social Development	4,998,457	4,974,241	4,752,593	221,648
Housing	860,525	854,375	776,789	77,586
Sanitation and Environmental	16,138,288	15,444,621	15,189,508	255,113
Education	2,647,462	2,530,012	2,493,767	36,245
Total Charges to Appropriations	105,566,828	108,043,828	104,971,168	3,072,660
Excess of Resources Over Appropriations	**$ -**	**$ -**	**$ (1,604,852)**	**$ (1,604,852)**

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, 2015 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 100)	$ 103,366,316
Difference – Budget to GAAP:	
Transfers from Other Funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(6,252,786)
Perspective Difference:	
Non Budgetary items - Revenues of Other Funds	4,559,152
Non Budgetary items	(1,320,032)
Total Revenues as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 27)	$ 100,352,650
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule (See Page 100)	$ 104,971,168
Difference – Budget to GAAP:	
Perspective Difference:	
Non Budgetary items - Expenditures of Other Funds	6,767,464
Other Items - Non budgetary	(525,671)
Timing Difference:	
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary reporting purposes	(2,167,793)
Payments of encumbrances of prior year that are expenditures for financial reporting purposes but are not outflows for budgetary purposes	2,289,355
Transfers to Other Funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(9,949,770)
Total Expenditures as Reported on the Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance (See Page 27)	$ 101,384,753

END OF NOTES

Unaudited

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2015
Proportion of the Net Pension Liability	0.65806%
Proportionate Share of the Net Pension Liability	$ 198,023,675
Covered - Employee Payroll	$ 25,744,720
Proportionate Share of the Net Pension Liability as Percentage of Covered-Employee Payroll	769.18%
Plan's Fiduciary Net Position	$ 838,879
Plan Fiduciary Net Position as a Percentage of the Net Pension Liability	0.42%

Notes to Schedule:

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

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

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.
The amounts presented have a measurement date of June 30, 2014.
Data Reference: Employees' Retirement System of the Government of the Commonwealth of Puerto Rico; Actuarial Valuation Report.

	2015
Contractually Required Contribution (Actuarially Determined)	$ 11,994,295
Contributions in Relation to the Actuarially Required Contributions	5,469,163
Contribution Deficiency (Excess)	$ 6,525,132
Covered - Employee Payroll	$ 25,744,720
Contributions as a Percentage of Covered-Employee Payroll	21.24%

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

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

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

Mortality

Pre-retirement Mortality:

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

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

Post-retirement Healthy Mortality:

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

Post-retirement Disabled Mortality:

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

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

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Supplementary Information Required by U.S. Department of Housing and Urban Development

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Line Ited No. Assets		Value
	Current Assets - Cash:	
111	Cash - Unrestricted	$ 658,773
113	Cash - Other Restricted	48,063
115	Cash - Restricted for Payment of Current Liabilities	312
100	**Total Cash**	**707,148**
	Receivables:	
122	Accounts Receivable - HUD Other Projects	37,801
128	Fraud Recovery	31,637
128.1	Allowance for Doubtful Accounts - Fraud Recovery	(31,637)
120	**Total Receivables, Net of Allowancesfor Doubtful Accounts**	**37,801**
150	**Total Current Assets**	**744,949**
	Fixed Assets:	
164	Furniture, Equipment & Machinery - Administration	456,924
166	Accumulated Depreciation	(326,054)
160	**Total Capital Assets, Net of Accumulated Depreciation**	**130,870**
190	**Total Assets**	**875,819**
200	Deferred Outflow of Resources	-
290	**Total Assets and Deferred Outflow of Resources**	**$ 875,819**

continue

Liabilities and Equity		
	Liabilities:	
	Current Liabilities:	
312	Accounts Payable <=90 days	$ 30,685
322	Accrued Compensated Absences - Current Portion	13,456
331	Accounts Payable - HUD PHA Programs	312
332	Accounts Payable - PHA Projects	19,238
333	Accounts Payable - Other Government	85,566
310	**Total Current Liabilities**	**149,257**
	Non-current Liabilities:	
354	Accrued Compensated Absences - Non-Current	122,570
350	**Total Non-Current Liabilities**	**122,570**
300	**Total Liabilities**	**271,827**
200	Deferred Outflow of Resources	-
	Equity:	
508.4	Net Investment in Capital Assets	130,870
511.4	Restricted Net Position	28,827
512.4	Unrestricted Net Position	444,295
513	**Total Equity / Net Position**	**603,992**
600	**Total Liabilities, Deferred Inflow of Resourses and Equity / Net Position**	**$ 875,819**

See accompanying notes to Financial Data Schedule.

FINANCIAL DATA SCHEDULES (RQ07)
PROGRAM REVENUES AND EXPENSES SUMMARY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Line Ited No.		
Revenues		**Value**
70600	HUD PHA Operating Grants	$ 7,939,898
71100	Investment Income - Unrestricted	1,258
71400	Fraud Recovery	61,224
71500	Other Revenue	191,904
70000	**Total Revenues**	**8,194,284**
Expenses		
	Administrative:	
91100	Administrative Salaries	422,012
91400	Advertising and Marketing	360
91500	Employee Benefit Contributions - Administrative	102,877
91600	Office Expenses	185,629
91900	Other	119,431
91000	**Total Operating - Administrative**	**830,309**
	General Expenses:	
96600	Bad Debts - Other	25,251
96000	**Total Operating - General Expenses**	**25,251**
96900	**Total Operating Expenses**	**855,560**
97000	**Excess of Operating Revenue over Operating Expenses**	**7,338,724**
97300	Housing Assitance Payments	7,217,004
97350	HAP Portability-In	176,816
97400	Depreciation Expense	64,937
90000	**Total Expenses**	**8,314,317**
10000	**Excess (Deficiency) of Total Revenue over (under) Total Expenses**	**$ (120,033)**
	Memo Account Information:	
*11030	Beginning Equity	$ 724,025
*11170	Administrative Fee Equity	$ 575,165
*11180	Housing Assistance Payments Equity	$ 28,827
*11190	Unit Months Available	15,900
*11210	Number of Unit Months Leased	15,562

See accompanying notes to Financial Data Schedule.

1. GENERAL

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

END OF NOTES

PART II

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

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FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture:			
Pass-Through Puerto Rico Department of Education:			
Child and Adult Care Food Program	10.558	CCC-003	$ 1,242,924
Total U. S. Department of Agriculture			1,242,924
U.S. Department of Housing and Urban Development:			
Direct Program:			
Community Development Block Grants/Entitlements Grant	14.218		1,860,675
Emergency Shelter Grant Program	14.231		195,500
Home Investment Partnership Program (HOME)	14.239		584,780
Section 8 Housing Choice Vouchers Program	14.871		8,257,729
Sub-Total Direct Programs			10,898,684
Pass-Through Autonomous Municipality of San Juan of the Commonwealth of Puerto Rico:			
Housing Opportunities for Persons with AIDS	14.241	2013-V01188	3,250
Pass-Through Puerto Rico Department of Housing – Public Housing Administration:			
Public and Indian Housing	14.850	2012-000062B	65,723
Public Housing Capital Fund	14.872	RQ-005004004	4,629
Subtotal Puerto Rico Department of Housing – Public Housing Administration			70,352
Total U.S. Department of Housing and Urban Development			10,972,286

continue

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Justice:			
Direct Program:			
Drug Enforcement Agency – Task Force	16.XXX		11,793
Sub-Total Direct Programs			11,793
Pass Through Puerto Rico Department of Justice:			
Justice Assistance Grant (JAG) Program	16.738	2013-DJ-BX-0060	59,903
VOCA Crime Victim Assistance Discretionary Grant Program	16.807	2013-VA-CAGUA-01/ 2013-VA-GX-0060	89,681
Total U. S. Department of Justice			161,377
U.S. Department of Transportation:			
Pass Through Puerto Rico Highway and Transportation Authority (Cluster):			
Job Access – Reverse Commute Program	20.516	N/AV	39,754
Pass Through Puerto Rico Safety Transit Commission:			
National Highway Traffic Safety Administration	20.614	2014-000037; 000055; 000070	46,371
Total U. S. Department of Transportation			86,125
U.S. Environmental Protection Agency:			
Direct Program:			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		10,613
Total U.S. Environmental Protection Agency			10,613
U. S. Department of Energy:			
Direct Program:			
Energy Efficiency and Conservation Block Grant Program	81.128		2,638
Total U.S. Department of Energy			2,638

continue

FEDERAL GRANTOR / PASS THROUGH GRANTOR / PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. Department of Education:			
Pass-Through Puerto Rico Department of Education:			
Adult Education – Basic Grants to States	84.002	2015-AF0215	103,236
21st Century Community Learning Centers	84.287	2015-AF0075	714,774
Total U.S. Department of Education			818,010
U.S. Department of Health and Human Services:			
Direct Program:			
Head Start Program	93.600		12,479,792
Sub-Total Direct Program			12,479,792
Pass-Through Puerto Rico Department of Family:			
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers (Cluster)	93.044	130112R1/130344R1 140096R1/15000221	54,952
Special Programs for the Aging – Title III, Part C – Grants for Nutrition Services (Cluster)	93.045	150315R1/14002250 140097R1/150313R/1	124,575
Nutrition Services Incentive Program (Cluster)	93.053	140098R1/150314R1	67,484
Sub-Total Cluster Program			247,011
Child Care Development Block Grant Program	93.575	241-2014-000077/ 241-2015-000024	472,918
Adoption and Safe Families Act	93.586	2014-000107	25,183
Family Violence Prevention and Services/Battered Women's Shelters_Grants to State Domestic Violence Coalitions	93.591	2014-000107	48,346
Total U.S. Department of Health and Human Services			13,273,250
U.S. Corporation of the National and Community Services:			
Direct Program:			
AmeriCorps	94.006		66,421
Total U.S. Corporation of the National and Community Services			66,421

continue

Federal Grantor / Pass Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security:			
Pass-Through Puerto Rico Office of Disaster and Emergencies Administration:			
Homeland Security Grant Program	97.067	2014-00039	1,028,718
Total U. S. Department of Homeland Security			1,028,718
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$27,662,362**

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

1. REPORTING ENTITY

The Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico (Municipality), was founded in 1775, and operates as a governmental unit of the Commonwealth of Puerto Rico under the Law No. 81 of August 30, 1991, known as the "Autonomous Municipalities Laws of the Commonwealth of Puerto Rico". It is governed by a Mayor and a 16 member Municipal Legislature elected for a four-year term.

2. BASIS OF PRESENTATION

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

4. SCHEDULE NOT IN AGREEMENT WITH OTHER FEDERAL AWARD REPORTING

The information included in the Schedule may not fully agree with other federal award reports submitted directly to federal granting agencies. The reporting and registration requirements under Section 1512 of the American Recovery and Reinvestment Act require informing on use Recovery Act funds provided through this award. This report is prepared in accrual basis and will has differences with the information reported on the Schedule, which prepared in cash basis.

5. FEDERAL CFDA NUMBER

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

continue

6. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, the Municipality provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT PROVIDED TO SUBRECIPIENTS
Community Development Block Grants/Entitlements Grants	14.218	$ 100,000
Emergency Shelter Grant Program	14.231	211,753
Home Investment Partnership Program	14.239	35,124
TOTAL		**$ 346,877**

7. RELATIONSHIP TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND

Expenditures of federal awards are reported in the Municipality's *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund* as follows: General Fund – $1,033,347, Capital Projects Fund – $1,860,675, Health and Human Services Fund – $13,248,067, and Other Governmental Funds $11,520,273.

END OF NOTES

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico** (**Municipality**), as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality**'s basic financial statements, and have issued our report thereon dated March 23, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the **Municipality**'s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Municipality**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002.

Municipality's Response to Findings

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

Purpose of this Report

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

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 23, 2016

Stamp No. E212808 was affixed to
the original report.

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

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

Report on Compliance for Each Major Federal Program

We have audited **Autonomous Municipality of Caguas of the Commonwealth of Puerto Rico** (**Municipality**)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality**'s major federal programs for the fiscal year ended June 30, 2015. **Municipality**'s major federal programs are identified in the Summary of Auditors' Result Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion (See the following Table)

As described in the accompanying Schedule of Findings and Questioned Costs, **Municipality** did not comply with requirement regarding the following:

Finding Number	CFDA Number	Program (or Cluster) Name	Compliance Requirement
2015-003	97.067	Homeland Security Grant Program	Activities Allowed or Unallowed, and Equipment and Real Property Management
2015-004	97.067	Homeland Security Grant Program	Cash Management and Reporting
2015-006	97.067	Homeland Security Grant Program	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for **Municipality** to comply with the requirements applicable to those programs.

Qualified Opinion (See the above Table)

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

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, **Municipality** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-003, 2015-004 and 2015-006 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005 to be significant deficiency.

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

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

CPA Díaz-Martínez, PSC
Certified Public Accountants & Consultants
License Number 12, expires on December 1, 2016

Caguas, Puerto Rico
March 23, 2016

Stamp No. E212809 was affixed to
the original report.

PART III

FINDINGS AND QUESTIONED COSTS

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SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

☒ Unmodified Opinions
- Governmental Fund Financial Statements

☒ Qualified Opinion
- Government-wide Financial Statements

☐ Adverse Opinion ☐ Disclaimer Opinion

Internal control over financial reporting:

- Material weakness (es) identified? ☒ Yes ☐ No
- Significant deficiency (ies) identified? ☒ Yes ☐ None Reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ☒ Yes ☐ No
- Significant deficiency (ies) identified? ☒ Yes ☐ None Reported

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

☒ Unmodified Opinion
- Community Development Block Grants/Entitlements Grants
- Home Investment Partnership Program (HOME)
- 21st Century Community Learning Centers
- Head Start Program

☒ Qualified Opinion
- Homeland Security Grant Program

☐ Adverse Opinion ☐ Disclaimer Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133? ☒ Yes ☐ No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlements Grants
14.239	Home Investment Partnership Program (HOME)
84.287	21st Century Community Learning Centers
93.600	Head Start Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B Programs: $829,870

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER **2015-001 (See FINDING REFERENCE NUMBER 2015-004)**

TYPE OF FINDING **MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**

CRITERIA

The 44 CFR, Part 13, Subpart C Section 13.20 (b) states that financial management system of other grantees and subgrantees must meet the following standards: (1) Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. … (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

CONDITION

As part of our audit procedures over reporting requirements of the Homeland Security Grant Program (CFDA No. 97.067), we verified the reports required to be submitted to the Puerto Rico Office for Public Safety Affairs (OPSA). We found the following deficiencies in the request for reimbursement reports:

a. The **Municipality** didn't have a sequential number for the requests for reimbursement submitted during fiscal year 2014-2015. We were unable to ascertain how many reports have been submitted to the OPSA for each award, further, we found two different requests from the same award with the same request number.
b. In the requests for reimbursement reports evaluated, the date of the awarding period didn't match with the contract awarded.
c. We didn't find evidence of the process of verification of the data reported and the date that the request was submitted to OPSA.
d. We didn't find evidence of a receiving report as required by contract terms, only a Certification indicating that the items were received and are working properly, was included in the request for reimbursements.
e. We didn't find copy of the bid process for the purchases as required by the contract terms for the requests for reimbursement evaluated; only a comment indicating that were purchased through bid number 2015-52.

The following deficiencies were noted in the financial reports required by OPSA:

a. In the financial report evaluated for the EMW-2011-SS-00135 contract award, the date of the awarding period didn't match with the period established in the contract award.
b. For the award number EWM-2011-SS-00135, only one financial reports was submitted during the fiscal year 2014-2015. The report for the quarter ended December 31, 2014, didn't have evidence as of when it was submitted to OPSA.
c. For the award number EWM-2012-SS-00049, two financial reports were submitted during the fiscal year 2014-2015. The report for the quarter ended September 30, 2014, the report was submitted on November 25, 2014. The report for the quarter ended December 31, 2014 didn't have evidence of when it was submitted.
d. We noted that the two reports prepared for the quarter ended December 31, 2014, didn't agree with the financial information reported in the Municipality's accounting system.

A program report for the award number EMW-2012-SS-00049 was found in the file, for the quarter ended December 31, 2014, no evidence of submission to OPSA was found in the file.

continue

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING REFERENCE NUMBER	**2015-002 (See FINDING REFERENCE NUMBER 2015-005)**
TYPE OF FINDING	**NONCOMPLIANCE AND MATERIAL WEAKNESS**
TYPE OF FINDING	**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**
CRITERIA	The 34 CFR Section 80.21 (b) states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee; and 34 CFR Section 80.21 (i) states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.
CONDITION	During our audit procedures for Cash Management of the 21st Century Community Learning Centers (CFDA No. 84.287), we noted that the program bank account generated interest in the amount of $298.93. This amount of interest earned on the account is over the $100 dollar threshold established by the Federal agency and pass-through entity. The amount over the threshold should be submitted promptly to the Federal agency or pass-through entity. The **Municipality** did not submit promptly or at least quarterly the excess to the Federal

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-003**

FEDERAL PROGRAMS
HOMELAND SECURITY GRANT PROGRAM (CFDA NO. 97.067)
U.S. DEPARTMENT OF HOMELANT SECURITY
PASS-THROUGH PUERTO RICO OFFICE FOR PUBLIC SAFETY AFFAIRS

AWARD NUMBER **EMW-201-SS-00135; EMW-2012-SS-00049**

COMPLIANCE REQUIREMENT **ACTIVITIES ALLOWED OR UNALLOWED, AND EQUIPMENT AND REAL PROPERTY MANAGEMENT**

TYPE OF FINDING **MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**

CRITERIA

The 44 CFR, Part 13, Subpart C Section 13.32 (c) (1) states that equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project program continues to be supported by Federal funds. In Section 13.32 (d) (1) states that property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, among other requirements.

In addition, 6 USC 609(b)(1)(A) establish that Homeland Security Grant Program funds may not be used to support the hiring of sworn public safety officers for purposes of fulfilling traditional public safety duties or to supplant traditional public safety positions and responsibilities.

CONDITION

As part of our audit procedures over equipment and real property management, we noted the following deficiencies:

a. As part of the proposal, the **Municipality** will purchase necessary equipment for other municipalities in the region. We noted that management didn't have adequate internal control procedures in place in order to assure that the equipment transferred to other municipalities in the region are safeguarded and used for allowable activities.
b. We selected a sample of fifteen (15) equipment included in the inventory provided, from a population of twenty-three (23) items. We found that the vehicle assigned to four (4) different municipalities was used for activities not related to the administration or performance of the program. Such activities included being an escort in a funeral, buying lunch, assisting to hikes, personal undisclosed use, and other undisclosed activities, doing preventive patrol vigilance, among others.
c. The **Municipality** provided a copy of the inventory taken on December 19, 2014. This inventory didn't include the acquisition date, and the municipal property number indicated in the inventory report didn't match with the property number observed in the municipalities visited.

QUESTIONED COSTS Not determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE

The municipalities that are using the vehicles were not aware of the limitations in use of the equipment purchased with this funds.

CAUSE

The personnel in charge of the administration of the program didn't have written policies and procedures in order to assure compliance with the requirements of equipment management. In addition, management was not given proper training and provided with the guidelines.

EFFECT OR POSSIBLE EFFECT

The **Municipality** may be required to reimburse the funds of the equipment purchased if not used for the activities for which they were purchased. Further, no assurance was provided as to the use and proper safeguard of the equipment transferred to other municipalities.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-003** – continuation

RECOMMENDATION

We recommend management to provide trainings to the municipalities that participate in the program in order to give them all the necessary regulations. In addition, monitoring procedures should be implemented in order to ascertain that proper usage is taken with the property.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED

Internal control measures are established including an official registration of mutual agreements and acceptance of terms and conditions for the use and handling of equipment, vehicles or any goods or services purchased.

A standardized sheet for registration and control of use of the vehicles units is established and it will be distribute to each of the municipalities with an orientation and certification of receipt and acceptance as part for the implementation of this measure.

Periodic inspections are established (September, March, and subsequently annually) to each of the municipalities in order to ensure proper use of equipment and vehicles. A special group will be selected for this activity.

IMPLEMENTATION DATE June 30, 2016

RESPONSIBLE PERSON Director of OMME

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-004 (See FINDING REFERENCE NUMBER 2015-001)**

FEDERAL PROGRAMS **HOMELAND SECURITY GRANT PROGRAM (CFDA NO. 97.067)**
U.S. DEPARTMENT OF HOMELANT SECURITY
PASS-THROUGH PUERTO RICO OFFICE FOR PUBLIC SAFETY AFFAIRS

AWARD NUMBER **EMW-201-SS-00135; EMW-2012-SS-00049**

COMPLIANCE REQUIREMENT **CASH MANAGEMENT AND REPORTING**

TYPE OF FINDING **MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**

CRITERIA

The 44 CFR, Part 13, Subpart C Section 13.20 (b) states that financial management system of other grantees and subgrantees must meet the following standards: (1) Financial Reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. … (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

CONDITION

As part of our audit procedures over reporting requirements, we verified the reports required to be submitted to the Puerto Rico Office for Public Safety Affairs (OPSA). We found the following deficiencies in the request for reimbursement reports:

a. The **Municipality** didn't have a sequential number for the requests for reimbursement submitted during fiscal year 2014-2015. We were unable to ascertain how many reports have been submitted to the OPSA for each award, further, we found two different requests from the same award with the same request number.
b. In the requests for reimbursement reports evaluated, the date of the awarding period didn't match with the contract awarded.
c. We didn't find evidence of the process of verification of the data reported and the date that the request was submitted to OPSA.
d. We didn't find evidence of a receiving report as required by contract terms, only a Certification indicating that the items were received and are working properly, was included in the request for reimbursements.
e. We didn't find copy of the bid process for the purchases as required by the contract terms for the requests for reimbursement evaluated; only a comment indicating that were purchased through bid number 2015-52.

The following deficiencies were noted in the financial reports required by OPSA:

a. In the financial report evaluated for the EMW-2011-SS-00135 contract award, the date of the awarding period didn't match with the period established in the contract award.
b. For the award number EWM-2011-SS-00135, only one financial reports was submitted during the fiscal year 2014-2015. The report for the quarter ended December 31, 2014, didn't have evidence as of when it was submitted to OPSA.
c. For the award number EWM-2012-SS-00049, two financial reports were submitted during the fiscal year 2014-2015. The report for the quarter ended September 30, 2014, the report was submitted on November 25, 2014. The report for the quarter ended December 31, 2014 didn't have evidence of when it was submitted.
d. We noted that the two reports prepared for the quarter ended December 31, 2014, didn't agree with the financial information reported in the Municipality's accounting system.

A program report for the award number EMW-2012-SS-00049 was found in the file, for the quarter ended December 31, 2014, no evidence of submission to OPSA was found in the file.

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-004 (See FINDING REFERENCE NUMBER 2015-001)** – continuation

QUESTIONED COSTS Not determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE We verified ten (10) reimbursement requests amounting to $621,469.56 from a total of funds received during the year of $901,698.87. We were unable to determine total reimbursement requests submitted during the fiscal year 2014-2015. This is a systemic deficiency.

CAUSE The personnel that is in charge of the administration of the program didn't have adequate training regarding the reporting requirements established by federal regulation and grant award documents.

EFFECT OR POSSIBLE EFFECT **Municipality** maybe required to reimburse the funds incurred as established in the contract award document.

RECOMMENDATION We recommend management to require the personnel in charge of the administration of the program, to attend to trainings and provide close monitoring and follow up on all reporting requirements.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED The personnel in charge of the process for the request for reimbursement will use the award number in a sequence manner to avoid numbers repetition.

Monitoring the dates of the awarding period with the contract award. We identify and assigned an executive officer who observes compliance measures with dates of delivery of report, schedule of activities and requirements.

The request for reimbursement and program reports will be attach with the evidence of the transmittal letter signed as received by the OPSA personnel.

A checklist was prepared with all the documents required by the Homeland Security Grant Program for each financial report to ascertain that the request for reimbursement of funds has the complete documentation.

IMPLEMENTATION DATE February 1, 2016

RESPONSIBLE PERSON Director of OMME

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER	**2015-005 (See FINDING REFERENCE NUMBER 2015-002)**
FEDERAL PROGRAMS	**21ST CENTURY COMMUNITY LEARNING CENTERS (CFDA NO. 84.287)** **U.S. DEPARTMENT OF EDUCATION** **PASS-THROUGH PUERTO RICO DEPARTMENT OF EDUCATION**
AWARD NUMBER	**215-AF0075**
COMPLIANCE REQUIREMENT	**CASH MANAGEMENT**
TYPE OF FINDING	**NONCOMPLIANCE AND SIGNIFICANT DEFICIENCY**
CRITERIA	The 34 CFR Section 80.21 (b) states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee; and 34 CFR Section 80.21 (i) states that grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.
CONDITION	During our audit procedures for Cash Management, we noted that the program bank account generated interest in the amount of $298.93. This amount of interest earned on the account is over the $100 dollar threshold established by the Federal agency and pass-through entity. The amount over the threshold should be submitted promptly to the Federal agency or pass-through entity. The **Municipality** did not submit promptly or at least quarterly the excess to the Federal agency or pass-through entity.
QUESTIONED COSTS	Not determined.
INFORMATION TO PROVIDE PROPER PERSPECTIVE	The **Municipality** did not have an adequate monitoring procedure to verify the time between the deposit of funds and transfer to the General Fund for payments. In addition the **Municipality** did not monitor the amount of interest that the program account was generating to determine whether a reimbursement to the Federal agency or pass-through entity was required.
CAUSE	The transfers of funds to the General Fund for payments were done approximately 30 to 60 days after the funds were deposited on the bank account, causing that the account earned interest in excess of the threshold amount.
EFFECT OR POSSIBLE EFFECT	The **Municipality** did not report funds available for the benefit of other recipients of the programs funds, as required by the Federal agency and the pass-through entity.
RECOMMENDATION	We recommend management to require the personnel in charge of the administration of the program, to attend to trainings and provide close monitoring and follow up on all reporting requirements.
RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED	A method and procedures will be stablished to minimize the time elapsing between the transfer and the reimbursement of funds, as provided in 34 CFR Section 80.21. If necessary, a transfer of funds will be made within a period of days established. Strictly monitoring of the interest generated by the program funds.
IMPLEMENTATION DATE	June 30, 2016
RESPONSIBLE PERSON	Director of the Department of Education

continue

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING REFERENCE NUMBER **2015-006**

FEDERAL PROGRAMS **HOMELAND SECURITY GRANT PROGRAM (CFDA NO. 97.067)
U.S. DEPARTMENT OF HOMELANT SECURITY
PASS-TRHOUGH PUERTO RICO OFFICE FOR PUBLIC SAFETY AFFAIRS**

AWARD NUMBER **EMW-201-SS-00135; EMW-2012-SS-00049**

COMPLIANCE REQUIREMENT **PROCUREMENT AND SUSPENSION AND DEBARMENT**

TYPE OF FINDING **MATERIAL NONCOMPLIANCE AND MATERIAL WEAKNESS**

CRITERIA The 2 CFR section 215.45 requires that some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

CONDITION As part of our audit procedures, we verified the procurement process used to purchase thirteen (13) pickups. The **Municipality** used the bid of the General Administration Services (ASG) of 2010. The purchase price agreed in that bid process was $22,906 per unit. The **Municipality** added up 5% for each year since 2010, paying the amount of $26,561.56 per unit. No written evidence was provided as to the agreement with the new price for each unit.

QUESTIONED COSTS Not determined.

INFORMATION TO PROVIDE PROPER PERSPECTIVE We didn't find evidence of written notification of the increase in price of the selected pickup.

CAUSE The contract with the General Administration Services (ASG), provided for an increase of up to 5% in specific models of selected suppliers. This modification, according to contract provisions, must be made in written with the ASG before the purchase.

EFFECT OR POSSIBLE EFFECT The **Municipality** didn't properly document the price paid for the acquisition of thirteen (13) pickups, this could result in unallowable costs.

RECOMMENDATION We recommend management to assure that proper amendments are made with suppliers, when a bid from ASG is used as procurement process in the purchase of goods.

RESPONSIBLE OFFICIAL'S RESPONSE AND CORRECTIVE ACTION PLANNED A check list will be standardize as a method to ascertain that all the documents of the bid used from the General Administration Services (ASG) are complete.

IMPLEMENTATION DATE June 30, 2016

RESPONSIBLE PERSON Director of OMME

END OF SCHEDULE

(1) Audit Findings that have been Fully Corrected:

FISCAL YEAR 2013

Finding Number	**2013-006**	**Reporting** Error in amount of expenditures reported in Report 1512.
CFDA Number	14.253	
Questioned Cost	None	
Auditee Comments	US Department of Housing and Urban Development requested to submit the amended report. No further action was required.	

(2) Audit Findings not Corrected or Partially Corrected:

FISCAL YEAR 2013

Finding Number	**2013-004**	**Eligibility** Municipality determined the participant as free instead of the correct classification of reduced-price meals based on the household's total current income.
CFDA Number	10.558	
Questioned Cost	None	
Auditee Comments	Pending of final determination of Pass-Through Puerto Rico Department of Education.	

Finding Number	**2013-005**	**Program Income** Municipality did not identify all properties acquired with CDBG funds in order to establish all program income and to report program income from revolving loans.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

continue

(2) Audit Findings not Corrected or Partially Corrected: - continuation

FISCAL YEAR 2012

Finding Number	**2012-III-1**	**Period of Availability of Funds** Grant balance exceeded the maximum allowed.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	
Finding Number	**2012-III-2**	**Monitoring** Municipality did not monitor loans made by the Central Oriental Development Bank (BADECO, Spanish acronyms).
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	Pending of final determination of US Department of Housing and Urban Development.	

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

NONE

(4) Audit findings is no longer valid:

FISCAL YEAR 2014

Finding Number	**2014-001**	**Reporting** Failed to submit the FFATA report.
CFDA Number	14.218	
Questioned Cost	None	
Auditee Comments	FFATA report is no longer required. No further action was needed.	

END OF SCHEDULE

AUTONOMOUS MUNICIPALITY OF CAGUAS
Office of Internal Audit

Corrective Action Plan
Single Audit
For the Fiscal Year Ended June 30, 2015

FINDING NUMBER	AUDITOR'S DESCRIPTION	AUDITOR'S RECOMMENDATION	PHA CORRECTIVE ACTION	PHA LEAD PERSONS ACCOUNTABLE FOR ACTION ITEM COMPLETION	RESULTS
Homeland Security Grant Program (97.067) Cash Management & Reporting Grant Year 2011 & 2012	As part of our audit procedures over reporting requirements, we verified the reports required to be submitted to the Puerto Rico Office for Public Safety Affairs (OPSA). We found the following deficiencies in the request for reimbursement reports: a. The Municipality didn't have sequential number for the request for reimbursement submitted during fiscal year 2014-2015. We were unable to ascertain how many reports have been submitted to the OPSA for each award, further, we found two different request from the same award with the same request number. b. In the requests for reimbursement reports evaluated, the date of the awarding period didn't match with the contract awarded.	We recommend management to require the personnel in charge of the administration of the program, to attend to trainings and provide close monitoring and follow up on all reporting requirements.	The personnel in charge of the process for the request for reimbursement will use the award number in a sequence manner to avoid numbers repetition. Monitoring the dates of the awarding period with the contract award. We identify and assigned an executive officer who observes compliance measures with dates of delivery of report, schedule of activities and requirements. The request for reimbursement and program reports will be attach with the evidence of the transmittal letter signed as received by the OPSA personnel. A checklist was prepared with all the documents required by the Homeland Security Grant Program for each financial report to ascertain that the request for reimbursement of funds has the complete documentation.	Director of OMME	On February 3, 2016 the personnel in charge of the administration of the Homeland program participated on a training provided by the personnel of OPSA.

	c. We didn't find evidence of the process of verification of the data reported and the date request was submitted to OPSA. d. We, didn't find evidence of a receiving report as required by contract terms, only a certification indicating that the items were received and are working properly, was included in the request for reimbursement. e. We didn't find copy of the bid process for the purchases as required by the contract terms for the request for reimbursement evaluated; only a comment indicating that were purchase through bid number 2015-52. The following deficiencies were noted in the financial reports required by OPSA: a. In the financial report evaluated for the EWM-2011-SS-00135 contract award, the date of the awarding period didn't match with the period				

	established in the contract award. b. For the award number EWM-2011-SS-00135, only one financial reports was submitted during the fiscal year 2014-2015. The report for the quarter ended December 31, 2014, didn't have evidence as of when it was submitted to OPSA. c. For the award number EWM-2012-SS-00049, two financial reports were submitted during the fiscal year 2014-2015. The report for the quarter ended on September 30, 2014, the report was submitted on November 25, 2014. The report for the quarter ended December 31, 2014 didn't have evidence of when it was submitted. d. We noted that the two reports prepared for the quarter of December 31, 2014, didn't agreed with the financial information reported in the Municipality's accounting system.				

	A program report for the award number EWM-2012-SS-00049 was found in the file, for the quarter ended December 31, 2014, no evidence of submission to OPSA was found in the file.				
Homeland Security Grant Program (97.067) Activities Unallowed/ Equipments Grant Year 2011 & 2012	As part of our audit procedure over equipment and real property management, we noted the following deficiencies: a. As part of the proposal, the Municipality of Caguas will purchase necessary equipment for other municipalities in the region. We noted that management didn't have adequate internal controls procedures in place in order to assure that the equipment transferred to other Municipalities in the region are safeguarded and used for allowable activities. b. We selected a sample of 12 equipment included in the inventory provided, form a population of 23 items. We found that the vehicle assigned to a municipality was used for activities not related to the		Internal control measures are established including an official registration of mutual agreements and acceptance of terms and conditions for the use and handling of equipment, vehicles or any goods or services purchased. A standardized sheet for registration and control of use of the vehicles units is established and it will be distribute to each of the municipalities with an orientation and certification of receipt and acceptance as part for the implementation of this measure. Periodic inspections are established (September, March, and subsequently annually) to each of the municipalities in order to ensure proper use of equipment and vehicles. A special group will be selected for this activity.	Director of OMME	

	administration or performance of the program. c. The Municipality of Caguas provided a copy of the inventory taken on December 19, 2014. This inventory didn't include the acquisition date, and the municipal property number indicated in the inventory report didn't match with the property number observed in the municipalities visited.				
Homeland Security Grant Program (97.067) Procurement 2011 & 2012	As part of our audit procedures, we verified the procurement process used to purchase thirteen pickups. The Municipality used the bid of the General Administration. Services (ASG) of 201. The purchase price agreed in that bid process was $22,906 per unit. The Municipality added up 5% for each year since 2010, paying the amount of $26,561.56 per unit. No written evidence was provided as to the agreement with the new price for each unit.	We recommend management to assure that proper amendments are made with suppliers, when a bid from ASG is used as procurement process in the purchase of goods.	A check list will be standardize as a method to ascertain that all the documents of the bid used from the General Administration Services (ASG) are complete.	Director of OMME	

Twenty-First Century Community Learning Center (84.287) 2014-2015	During our audit procedures for Cash management, we noted that the program bank account generated interest in the amount of $298.93. This amount of interest earned on the account is over the $100 dollar threshold established by the Federal Agency and pass through entity. The amount over the threshold should be submitted promptly to the Federal agency or pass-through entity.	We recommend management to implement procedures to ensure that the transfers of funds to the General Fund for payments are made on timely basis, minimizing the time elapsing between the received of funds and disbursement, and the interest earned on the bank account. Also we recommend that the program accountant verify, on a monthly basis, the interest earned on the bank account to determine whether a reimbursement to the Federal agency or pass-through is required.	A method and procedures will be stablished to minimize the time elapsing between the transfer and the reimbursement of funds, as provided in 34 CFR Section 80.21 If necessary, a transfer of funds will be made within a period of days established. Strictly monitoring of the interest generated by the program funds.	Director of the Department of Education	

Approved by:

Ms. Angie Frias Baez, Finance Director