

COMMONWEALTH OF PUERTO RICO

VOCATIONAL REHABILITATION ADMINISTRATION

(A COMPONENT UNIT OF THE PUERTO RICO DEPARTMENT OF LABOR AND HUMAN RESOURCES)



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

Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Commonwealth of Puerto Rico Vocational Rehabilitation Administration
(A Component Unit of Puerto Rico Department of Labor and Human Resources)

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico - Rehabilitation Administration (the Administration) a component unit of Puerto Rico Department of labor and Human Resources, as of and for the year ended June, 30, 2015, and the related notes to the financial statements, with collectively comprise the Administration's basic financial statements as listed in the table 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 de 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 o error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities (Government-wide Financial Statements)	Adverse
Business Activities (Fund Financial Statements)	Unmodified
General Fund (Fund Financial Statements)	Unmodified
Federal Programs Fund (Fund Financial Statements)	Unmodified
Other Governmental Funds (Fund Financial Statements)	Unmodified

Basis for Adverse Opinion on Governmental Activities (Government-wide Financial Statements)

The Retirement System Administration of Government Employees and Judicature (ASR by its initials in Spanish) did not submit to the Administration its proportionate share of the collective net pension liability in relation with its participation in the governmental activities of the Puerto Rico Employee Retirement System. The net pension liability of the Administration was aggregated by the ASR with the net pension liability of all the agencies of the Central Government that record their transactions in PRIFAS. Therefore, the Administration Management was unable to record the Administration's proportionate share of the collective net pension liability of its participation in the Puerto Rico Employee Retirement System in governmental activities and, accordingly, has not recorded the related deferred inflows and outflows of resources nor included related disclosures in the notes to the financial statements. Additionally, the Administration recorded its required annual contributions to the pension plan as pension expense, totaling \$2,309,343 during the year. Accounting principles generally accepted in the United States of America require that governmental cost-sharing employers participating in pension plans recognize a liability for its proportionate share of the net pension liability of the pension plan, while pension expense is determined by change in the employer's proportion of the collective net pension liability and differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability. Applying these generally accepted accounting principles would affect the liabilities, deferred inflows and outflows, the net position, and expenses of the governmental activities. The amount by which this departure would affect the liabilities, deferred inflows and outflows, the net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental Activities (Government-wide Financial Statements)” paragraph, the government-wide financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of Commonwealth of Puerto Rico Vocational Rehabilitation Administration (A Component Unit of Puerto Rico Department of Labor and Human Resources), as of June 30, 2015, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the fund 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 Commonwealth of Puerto Rico Vocational Rehabilitation Administration (A Component Unit of Puerto Rico Department of Labor and Human Resources), as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the basic financial statement of the Administration is intended to present the financial position, and the changes in financial position of only that portion of the governmental activities of the Department attributable to the transactions of the Administration. It does not intend to and does not present fairly the financial position and changes in financial position of the Puerto Rico Department of Labor and Human Resources or the Commonwealth of Puerto Rico in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and the Budgetary Comparison Schedule on pages 4 through 11 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the 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 of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit performed for the purpose of forming and opinion on the financial statements that collectively comprise the Administration's basic financial statements. The accompanying schedule of expenditures of federal awards, presented on page 42 as required by U.S. Office of Management and Budget Circular A-133, Audit of States Local Governments, and Non-profit Organizations, is resented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards in fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2015 on our consideration of the Administration's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Administration's internal control over financial reporting and compliance.

CMR & CO.

CMR & CO CPA-PSC
San Juan, Puerto Rico
March 28, 2016

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 256 Expires Dec 1, 2016

Stamp No. E142715 of the Puerto Rico Society of Certified Public Accountants has been affixed to the file copy of this report.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Our discussion and analysis of the Vocational Rehabilitation Administration (the Administration) financial performance provides an overview of its financial activities for the year ended June 30, 2015. Please read in conjunction with the financial statements and accompanying notes.

Financial Highlights

- Total assets of the Administration amounted to approximately \$15.10 million, which represents an increase of approximately \$6.01 million compared to the balance for 2014. This increase was due mainly to an increase of \$5.97 million on accounts receivables from federal government offset by a decrease of \$0.60 million on accounts receivables from the State Insurance Fund Corporation (CFSE, by its Spanish acronym), net assets transferred from CIRIO of \$1.43 and a decrease in capital assets of \$0.81 million.
- Total liabilities of the Administration amounted to \$28.60 million. As of June 30, 2015, the balance of accounts payables represents 33.5%, advances from central government represents 10.8%, compensated absences payable 31.0% and termination benefits 23.4% of total liabilities.
- Total liabilities of the Administration, on a government-wide basis, exceed its assets by approximately \$13.50 million as of June 30, 2015.
- In August 12, 2014, the Commonwealth of Puerto Rico approved the Law No. 139-2014, known as "Ley del Programa de Industrial de Ciegos y Personas con Impedimentos Físicos, Mentales y de Desarrollo" to derogate Law 207 of 1948 that created the Corporation of Industries for the Blind and Mentally Retarded and Other Incapacitated Persons of Puerto Rico (CIRIO, by its Spanish acronym). The Law 139-2014 created the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons under the Puerto Rico Vocational Rehabilitation Administration (the Administration) with the same functions, vision and purpose of CIRIO. The resources of CIRIO were transferred to the Administration, including employees, documents, files, materials, equipment and any other property pertaining to CIRIO.

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Administration as a whole, and present a longer term view of the Administration's finances.

The fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Administration's operations in more detail than government-wide statements by providing information about the Administration's most significant funds.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Our financial analysis commences with the Statement of Net Position and Statement of Activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements report the Administration's net position and changes in them. You can think of the Administration's net position (the difference between assets and liabilities) as one way to measure the Administration's financial health, or financial condition. Over the time, increases or decreases in the Administration's net position are no indicator of whether its financial health is improving or deteriorating.

The Statement of Net Position and the Statement of Activities are commonly divided into the following activities:

- **Governmental activities** – the Administration's basic services are reported here, including among others, the rehabilitation services, management and support and capital improvements. Federal grants and legislative appropriations finance most of these activities.
- **Business-type activities** – The Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) is reported here. Sales of manufactured and purchase products and legislative appropriations finance this activity.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the Administration as a whole. Its major funds are the Federal Programs Funds and the General Fund. Other non-major funds, if any, are reported as Other Governmental Funds.

- **Governmental funds** – Most of the Administration's basic services are reported in governmental funds, which focus on how money flow into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide detailed short-term view of the Administration's general government's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Administration's operations. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental fund in a reconciliation shown in the fund financial statements.
- **Proprietary fund** – This fund is used to show the activity of the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons (the Program) which

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

operates more like a commercial enterprise. Because this fund charges for the products that sells, it is known as enterprise fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The Administration as a Whole

The Administration's governmental activities net deficit amounted to \$14.13 million at June 30, 2015. This deficit is mainly due to vacations and sick leave and termination benefits accruals that were recorded to convert the Administration's modified accrual basis of accounting to the accrual basis.

The Administration's business type activities net position amounted to \$.63 million at June 30, 2015. This amount is mainly due to net position balance transferred with the operations of the Program.

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COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

The following table summarizes the statements of net position as of June 30, 2015 and 2014.

	Governmental Activities			Business Type Activities		
	2015	2014	Change	2015	2014	Change
Current and other assets	\$ 12.77	\$ 7.38	\$ 5.39	\$ 1.23	\$ -	\$ 1.23
Capital assets	0.90	1.71	(0.81)	0.20	-	0.20
Total assets	13.67	9.09	4.58	1.43	-	1.43
Accounts payable and other current liabilities	9.26	6.48	2.78	0.33	-	0.33
Central government advances	3.09	0.22	2.87	-	-	-
Accrued compensated absences	8.75	8.69	0.06	0.11	-	0.11
Accrued termination benefit	6.70	7.46	(0.76)	-	-	-
Deferred income	-	-	-	0.36	-	0.36
Total liabilities	27.80	22.85	4.95	0.80	-	0.80
Net invested in capital	0.90	1.71	(0.81)	0.20	-	0.20
Restricted	-	-	-	-	-	-
Unrestricted	(15.03)	(15.47)	0.44	0.43	-	0.43
Total net position (deficit)	\$ (14.13)	\$ (13.76)	\$ (0.37)	\$ 0.63	\$ -	\$ 0.63

Following are the major changes on the Administration's financial position:

- Total assets of the Administration's governmental activities increased by \$4.58 million. This increase was mainly caused by an increase in accounts receivable from federal government of \$5.97 million offset by a reduction in accounts receivables from the State Insurance Fund Corporation (CFSE, by its Spanish acronym) and a decrease of \$.81 million in capital assets.
- Total governmental activities liabilities increased by \$4.95 million. This increase was mainly caused by an increase in accounts payable of \$2.78 million and advances from Central Government of \$2.87 million offset by a reduction in accrued termination benefits of 0.76 million.
- Total governmental activities deficit increased by \$0.37 million.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

- With the transfer of the Program, business type activity assets increased by \$1.43 million, liabilities increase by \$0.80 million and net position increase by \$0.63 million.

The following table summarizes the statement of activities for the year ended June 30, 2015 and 2014.

	<u>Governmental Activities</u>			<u>Business Type Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Revenues:						
Charges for products	\$ -	\$ -	\$ -	\$ 0.53	\$ -	\$ 0.53
Legislative appropriations	17.09	16.84	0.25	0.47	-	0.47
Special appropriations	0.60	0.60	-	-	-	-
Intergovernmental-federal governmental	68.63	77.69	(9.06)	-	-	-
Miscellaneous	0.01	0.02	(0.01)	-	-	-
Total Revenues	<u>86.33</u>	<u>95.15</u>	<u>(8.82)</u>	<u>1.00</u>	<u>-</u>	<u>1.00</u>
Program Expenses:						
Management and support	42.87	42.81	0.06	-	-	-
Vocational Rehabilitation Services	42.36	51.02	(8.66)	-	-	-
Older Blind Program	0.46	0.34	0.12	-	-	-
Independent Life Program	0.22	0.32	(0.10)	-	-	-
Sustained Employment Program	0.60	0.14	0.46	-	-	-
Employee Job Training Program	0.19	0.19	-	-	-	-
Program for the industry of Blind and Physical, Mental and Development Disabilities Persons	-	-	-	0.98	-	0.98
Total Expenses	<u>86.70</u>	<u>94.82</u>	<u>(8.12)</u>	<u>0.98</u>	<u>-</u>	<u>0.98</u>
Transfer out to Central Governmental	-	(0.09)	0.09	-	-	-
Increase in net position	<u>(0.37)</u>	<u>0.24</u>	<u>(0.61)</u>	<u>0.02</u>	<u>-</u>	<u>0.02</u>

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

During the year ended June 30, 2015, the Administration received \$68.63 million from Federal Assistance Programs, representing 79.5% of total governmental activities funds received.

Also, the Administration expended \$85.23 million for management and support and vocational rehabilitation services, representing 98.3% of total expenditures during the year ended June 30, 2015.

Capital Assets

At the end of June 30, 2015, the Administration had \$0.90 million invested in equipment, and furniture, (net of depreciation) in governmental activities and \$0.20 invested in equipment, furniture and building improvements (net of depreciation) in business type activities. The following table summarizes the net amounts invested in capital assets as of June 30, 2015 and 2014:

Capital Assets at Year-End
(Net of Accumulative Depreciation, in Millions)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Equipment	0.49	1.22	0.01	-	0.50	1.22
Furniture	0.41	0.48	0.01	-	0.42	0.48
Motor Vehicles	-	-	-	-	-	-
Building Improvements	-	-	0.18	-	0.18	-
	<u>\$ 0.90</u>	<u>\$ 1.70</u>	<u>\$ 0.20</u>	<u>\$ -</u>	<u>\$ 1.10</u>	<u>\$ 1.70</u>

General Fund Budgetary Highlights

The 2014-2015 General Fund Budget amounted to \$17,089,217 or \$378,415 less than actual spending (\$16,874,807).

For the year ending June 30, 2015, the General Fund Budget assigned to the Administration amounted to \$17,089,217, which represents an increase of \$247,048 or 1.5% compared with fiscal year ended June 30, 2014.

	<u>2013-2014</u>	<u>2014-2015</u>	<u>Increase (decrease)</u>
General Fund	<u>\$16,842,169</u>	<u>\$ 17,089,217</u>	<u>\$ 247,048</u>

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Request for Financial Information

This annual financial report is intended to provide the public with an overview of the Administration financial operations and condition for the fiscal year ended June 30, 2015. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Director of Finance, Vocational, Rehabilitation Administration, PO Box 91118, San Juan Puerto Rico 00919-1118.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Current Assets			
Cash and resources with fiscal agent	\$ 242,582	\$ 228,548	\$ 471,130
Receivables (net)	12,388,850	200,077	12,588,927
Inventories	-	215,974	215,974
Prepaid	133,997	65,590	199,587
Total Current Assets	<u>12,765,429</u>	<u>710,189</u>	<u>13,475,618</u>
Noncurrent Assets			
Restricted cash and resources with fiscal agent	-	517,266	517,266
Capital assets, net	901,195	203,132	1,104,327
Total noncurrent Assets	<u>901,195</u>	<u>720,398</u>	<u>1,621,593</u>
Total Assets	<u>\$ 13,666,624</u>	<u>\$ 1,430,587</u>	<u>\$ 15,097,211</u>
Liabilities			
Current Liabilities			
Accounts payable	\$ 9,264,702	\$ 325,161	\$ 9,589,863
Central Government Advances	3,086,652	-	3,086,652
Accrued compensated absences, current portion	4,986,197	46,434	5,032,631
Accrued termination benefits, current portion	875,325	-	875,325
Total Current Liabilities	<u>18,212,876</u>	<u>371,595</u>	<u>18,584,471</u>
Non-Current Liabilities			
Deferred Income	-	363,768	363,768
Accrued compensated absences, non-current	3,758,361	63,285	3,821,646
Accrued termination benefits, non-current	5,830,247	-	5,830,247
Total Non-Current Liabilities	<u>9,588,608</u>	<u>427,053</u>	<u>10,015,661</u>
Total Liabilities	<u>\$ 27,801,484</u>	<u>\$ 798,648</u>	<u>\$ 28,600,132</u>
Net Position			
Net Investment in Capital Assets	\$ 901,195	\$ 203,132	\$ 1,104,327
Unrestricted (deficit)	(15,036,055)	428,807	(14,607,248)
Total Net Position	<u>\$ (14,134,860)</u>	<u>\$ 631,939</u>	<u>\$ (13,502,921)</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Funtions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		Total
	Cost and Expenses	Operating Grants and Contributions	Charges for Products	Governmental Activities	Business-Type Activities	
Primary Government						
Governmental Activities:						
Management and support	\$ 42,871,942	44,031,665	-	1,159,723	-	1,159,723
Vocational rehabilitation services	42,360,529	40,824,033	-	(1,536,496)	-	(1,536,496)
Older blind program	462,705	463,768	-	1,063	-	1,063
Independent life program	219,118	227,225	-	8,107	-	8,107
Sustained employment program	600,000	600,000	-	-	-	-
Employee job training	184,206	184,131	-	(75)	-	(75)
Total Governmental activities	86,698,500	86,330,822	-	(367,678)	-	(367,678)
Business Type Activities:						
Program for the industry of blind and physical, mental and development disabilities persons	976,004	467,000	533,721	-	24,717	24,717
Total Business type activities	976,004	467,000	533,721	-	24,717	24,717
Total Primary Government	\$ 87,674,504	\$ 86,797,822	\$ 533,721			
Change in Net Position Primary Government				(367,678)	24,717	(342,961)
Net Position (deficit), beginning				(13,767,182)	607,222	(13,159,960)
Net Position (deficit), ending				\$ (14,134,860)	\$ 631,939	\$ (13,502,921)

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 BALANCE SHEET – GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and resources with fiscal agent	\$ 149,919	\$ -	\$ 92,663	\$ 242,582
Receivables	-	12,234,758	154,092	12,388,850
Prepaid Expenses	133,997	-	-	133,997
Total Assets	\$ 283,916	\$ 12,234,758	\$ 246,755	\$ 12,765,429
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 20,339	\$ 9,137,020	\$ 94,067	\$ 9,251,426
Central Governmental Advances	-	3,086,652	-	3,086,652
Contract retainage payable	836	10,842	1,354	13,032
Other Liabilities	-	244	-	244
Total Liabilities	21,175	12,234,758	95,421	12,351,354
Fund Balance:				
Restricted to:				
Stabilization funds	-	-	51,738	51,738
Injured worker's rehabilitation	-	-	5,166	5,166
Assigned to:				
Legal verdict	-	-	18,671	18,671
Other purposes	262,741	-	75,759	338,500
Total Fund Balance (deficit)	262,741	-	151,334	414,075
Total Liabilities and Fund Balance	\$ 283,916	\$ 12,234,758	\$ 246,755	\$ 12,765,429

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 YEAR ENDED JUNE 30, 2015

Total fund balances of governmental fund	\$	414,075
Amounts reported to governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements		901,195
Liabilities of accrued compensated absences are not to be paid with current financial resources and therefore not reported in the fund financial statements		(8,744,558)
Liability of accrued termination benefits are no to be paid with cvurrent financial resources and therefore not reported in the fund financial statements		<u>(6,705,572)</u>
Net position of governmental activities		<u>\$ (14,134,860)</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Federal Programs</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Legislative appropriations	\$ 17,089,217	\$ -	\$ -	\$ 17,089,217
Special appropriations	-	-	600,000	600,000
Federal grants	-	68,632,071	-	68,632,071
Miscellaneous	-	-	9,534	9,534
Total Revenues	<u>17,089,217</u>	<u>68,632,071</u>	<u>609,534</u>	<u>86,330,822</u>
EXPENDITURES				
Management and support	4,524,780	37,039,820	1,207,020	42,771,620
Vocational rehabilitation services	12,238,823	30,121,706	-	42,360,529
Older blind program	-	466,844	-	466,844
Independent life program	-	219,495	-	219,495
Sustained employment program	-	600,000	-	600,000
Employee job training program	-	184,206	-	184,206
Total Expenditures	<u>16,763,603</u>	<u>68,632,071</u>	<u>1,207,020</u>	<u>86,602,694</u>
Excess (deficiency) or revenue over expenditures	<u>325,614</u>	<u>-</u>	<u>(597,486)</u>	<u>(271,872)</u>
Fund Balance (deficit), beginning	<u>(62,873)</u>	<u>-</u>	<u>748,820</u>	<u>685,947</u>
Fund Balance (deficit), ending	<u>\$ 262,741</u>	<u>\$ -</u>	<u>\$ 151,334</u>	<u>\$ 414,075</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Net change in fund balance-total governmental fund	\$ (271,872)
 Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expenses. This is the amount by which depreciation expense exceeded capital outlays for the year	(804,824)
Accrued compensation reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	(48,800)
Accrued termination benefits reported in the Statement of Activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>757,818</u>
Change in net position of governmental activities	<u>\$ (367,678)</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 STATEMENT OF NET POSITION – PROPRIETARY FUND
 JUNE 30, 2015

	<u>Business- Type Activities</u>
ASSETS	
Current Assets	
Cash and resources with fiscal agent	\$ 228,548
Receivables (net)	200,077
Inventories	215,974
Prepaid merchandise	<u>65,590</u>
Total Current Assets	<u>710,189</u>
Noncurrent Assets	
Restricted cash and resources with fiscal agent	517,266
Capital assets, net	<u>203,132</u>
Total Noncurrent Assets	<u>720,398</u>
Total Assets	<u>\$ 1,430,587</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 283,781
Payroll taxes and withholdings	41,380
Accrued compensated absences, current portion	<u>46,434</u>
Total Current Liabilities	371,595
Noncurrent liabilities	
Deferred Income for improvements and maintenance of facilities	363,768
Accrued compensated absences, non-current	<u>63,285</u>
Total Noncurrent Liabilities	<u>427,053</u>
Total Liabilities	<u>\$ 798,648</u>
NET POSITION	
Net Investment in capital assets	\$ 203,132
Restricted for improvements and maintenance to facilities	<u>428,807</u>
Unrestricted (deficit)	<u>428,807</u>
Total Net Position	<u>\$ 631,939</u>

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2015

	Business Type Activity
OPERATING REVENUES	
Net Sales	\$ 533,721
COST OF SALES:	
Materials	315,742
Direct labor	289,595
Indirect costs	55,362
Total Cost of Sales	660,699
EXCESS OF COST OVER SALES	(126,978)
GENERAL AND ADMINISTRATIVE EXPENSES	315,305
OPERATING LOSS	(442,283)
OTHER SOURCES:	
Appropriations from Central Government	467,000
Increase (decrease) in net position	24,717
Net position, beginning	607,222
Net position, ending	\$ 631,939

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 STATEMENT OF CASH FLOW – PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2015

	Business Type Activity
Cash flows from operating activities:	
Receipts from customers	\$ 449,927
Payment to suppliers	(460,145)
Payment to employee	(433,287)
Net cash provided by (used in) operating activities	(443,505)
Cash flows from noncapital financing activities:	
Operating grants and contributions	467,000
Transfers from other funds	728,314
Net cash provided by (used in) noncapital financing activities	1,195,314
Cash flows from capital and related financing activities:	
Capital expenditures	(5,995)
Net cash provided by (used in) capital and related financing activities	(5,995)
Net increase (decrease) in cash and resources with fiscal agent	745,814
Cash and resources with fiscal agent at beginning of year	-
Cash and resources with fiscal agent at end of year	\$ 745,814

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
STATEMENT OF CASH FLOW – PROPRIETARY FUND (CONTINUED)
YEAR ENDED JUNE 30, 2015

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (442,283)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation	50,414
Provision for bad debts	
Changes in operating assets and liabilities:	
Decrease (increase) in accounts receivables	(84,221)
Decrease (increase) in inventory	(18,010)
Decrease (increase) in other assets	(65,590)
Increase (decrease) in accounts payables and accrued liabilities	126,297
Increase (decrease) in compensated absences	(10,112)
	(10,112)
Net cash provided by (used in) operating activities	\$ (443,505)

See accompanying notes to basic financial statements

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Note 1 – Governmental Environment

Organization

The Vocational Rehabilitation Administration (the Administration) is an agency of the Commonwealth of Puerto Rico organized to manage the funds for vocational rehabilitation as established in Public law 93-112 of September 26, 1973, as amended, known as The Rehabilitation Law. The Administration was previously an operational component of the Department of the Family of the Commonwealth of Puerto Rico until June 10, 2000 when Law 97, transferred the same to the Department of labor and Human Resources of the Commonwealth of Puerto Rico. Its mission is to enable persons with disabilities to enter in the workforce so they can lead an independent life.

Its public policy is to establish comprehensive vocational rehabilitation services for citizens with disabilities so that they can achieve employment and contribute to the well-being of their families and society. In addition, the Administration promotes that community organizations participate actively in the rehabilitation of citizens with significant and severe disabilities.

Funding

For governmental funds, the administration is funded by combined Federal and commonwealth of Puerto Rico funds, Legislative Appropriations are made annually to match expected Federal Awards. During the year ended June 30, 2015, the ratio of Federal to State Funds was approximately 80% / 20%, respectively.

For proprietary fund, the Administration is funded by proceeds from sales of products manufacture and purchased for resale and from Commonwealth of Puerto Rico Legislative Appropriations.

Program description

a. Management and Support

The management and support program consists of the administrative and operational structure of the Administration. Its divisions are the Administrator's Office, the Office of legal Affair, the Office of Labor Affairs and Human Resources, the Administration Office, the Office of Management Information Systems, The Office of Operational Policies and six (6) Regional Offices located in Caguas, San Juan, Arecibo, Bayamón, Mayaguez and Ponce.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

b. Vocational Rehabilitation Services

This program offers comprehensive, coordinated, effective, efficient and accountable programs of vocational rehabilitation in order to assess, plan, develop, and provide vocational rehabilitation services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities and capabilities so they may prepare for and engage in competitive employment.

c. Older Blind Program

This program provides services that improve or expand independent living services. Among the services provided are those to help correct or modify visual disabilities, provide eyeglasses and other visual aids, provide services and equipment to enhance mobility and self-care, provide training in Braille and other services to help older individuals who are blind adjust to blindness, provide teaching services in daily living activities and other supportive services that enable individuals to live more independently. Funds can also be used to improve public understanding of the problems faced by older individuals who are blind.

d. Independent Life Program

This program offers services to maximize the leadership, empowerment, independence and productivity of individuals with disabilities, and the integration and full inclusion of individuals with disabilities into the mainstream society, by providing financial assistance for providing, expanding and improving the provision of independent living services.

e. Sustained Employment Program

This program offers skilled job trainers who accompany the worker for intensive on-the-job training, systematic training, job development, follow-up services, regular observation or supervision at training sites and provide other services needed to support an individual in employment.

f. Employment Job Training Program

This program is designed to support special projects for training State vocational rehabilitation unit personnel in program areas essential to the effective management of the unit's program of vocational rehabilitation services or in skill areas that enable staff personnel to improve their abilities to provide vocational rehabilitation services to individuals with disabilities. Projects are designed to: (1) address recruitment and retention of qualified rehabilitation professionals; (2) provide for successful planning; (3) provide for leadership development and capacity building; and (4) provide training on the Rehabilitation Act of 1973, as amended.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

g. Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons

This program is designed to establish and organize workshops that provide training, employment and any other services that are deemed appropriate or necessary for the rehabilitation of individuals who are blind, mental or other delayed physical disability.

Note 2 – Summary of Significant Accounting Policies

GASB 34

The accompanying basic financial statements of the Administration have prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments (GASB No. 34). This statement establishes financial reporting requirements for state and local government. The Administration adopted the provisions of GASB No. 34 as well as others statements referred to below as of July 1, 2007.

They require information and restructure much of the information that governmental entities have presented in the past.

Comparability with reports issued in prior years is affected. With the implementation of GASB No. 34 the Administration has prepared required supplemental information title Management Discussion and Analysis, which precedes the basic financial statements.

New Accounting Standards

Accounting Standards effective for the 2015 Financial Statements:

In June 2012, the *GASB issued Statement No. 68, " Accounting and Financial Reporting for Pensions"*, an amendment of GASB Statement No. 27, effective for the Administration's fiscal year beginning July 1, 2014. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the Administration to its employees. The financial statements report the liability of the net pension liability, which is measured as the total pension liability, less the amount of the pension fiduciary net position. Changes in pension liability are included in pension expense in the period of the change. The Administration did not implemented GASB 68 during fiscal year 2014-2015.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

In January 2013, the *GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations"*, effective for the Administration's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. There is no impact of this statement on the Administration financial statements.

In November 2013, the *"GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date"*, effective for the Administration concurrently with the implementation of GASB Statement No. 68. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of GASB 68 by employer contributions. This statement is implemented in conjunction with GASB State No. 68. The Administration did not implemented GASB 68 during fiscal year 2014-2015.

Future Accounting Standards

In February 2015, the *GASB issued Statement No. 72, "Fair Value Measurement and Application"*. This Statement generally requires investments to be measured at fair value. Fair value is defined as 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. Valuations techniques will be required to be used that are appropriate with defined approaches. Disclosures are required to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This Statement will be effective in fiscal year 2016.

In June 2015, the *GASB issued 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"*. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees not within the scope of Statement 68. Requirements are also established for the assets accumulated for the purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet the criteria within the scope of Statement 67. This Statement will be effective in fiscal year 2016.

In June 2015, the *GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*. This Statement establishes financial reporting standards for Other Post-Employment Plans (OPEB) that is administered through trusts or equivalent arrangements which involve contributions from employers and nonemployer contributing entities to the OPEB plan. This Statement is effective for financial statements with fiscal years beginning after June 15, 2016.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

In June 2015, the *GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions"*. This Statement establishes accounting and financial reporting standards for Other Post-Employment Plans (OPEB) that is administered through trusts or equivalent arrangements which involve contributions from employers and nonemployer contributing entities to the OPEB plan. This Statement is effective for financial statements with fiscal years beginning after June 15, 2017.

In June 2015, the *GASB issued Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*. This Statement establishes the hierarchy of GAAP for state and local governments. This Statement will be effective for fiscal year 2016.

In August 2015, the *GASB issued Statement No. 77, "Tax Abatement Disclosures. This Statement requires state and local governments to disclose tax abatement agreements entered by other governments and that reduce the reporting government's tax revenues"*. The reduction in tax revenues can result from an agreement between one or more governments and an individual entity in which one or more governments promise to forgo tax revenues to which they are otherwise entitled. The individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. This statement is effective in fiscal year 2017.

In December 2015, the *GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

In December 2015, the *GASB issued 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 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

In January 2016, the *GASB issued Statement No. 80, "Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14"*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

additional criterion 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Management is evaluating the impact that these Statements will have on the Administration's basic financial statements.

Basic of Presentation – Fund Accounting

The accounts of the Administration are organized on the basis of governmental funds. Each fund is accounted for by a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues and expenditures. Fund financial statements report detailed information about the Administration's current financial resources. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Governmental Funds

The following are the governmental fund types presented in the financial statements as of and for the year ended June 30, 2015:

a. General Fund

This Fund includes the financial resources which relate to the general operations of the Administration. These operations consist of the general administration and other activities not accounted for in other funds. All Commonwealth of Puerto Rico matching of state funds is recorded in this fund.

b. Federal Programs

This fund is used to account for all federal grants that are restricted to expenditures for federal programs.

c. Other Governmental Funds

Other governmental funds consist mainly of Special Appropriations for operational and administrative costs and projects for improvements and maintenance of facilities.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

Proprietary Funds

The following is the proprietary fund that is presented in the financial statements as of and for the year ended June 30, 2015:

a. **Business type fund**

This fund presents the operations of the Program for the Industry of Blind and Physical, Mental, and Development Disabilities Persons.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured in the financial statements, while basis of accounting refers to the timing in which transactions are recognized in the operating statements.

The governmental funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. when they become both measurable and available. Measurable means that the amount of the transaction can be determined or reasonably estimated or in a soon enough period after the balance sheet date to pay current budget period expenditures while available means collectible within the current period. Expenditures are recorded when the related funds liability is incurred, i.e., that the liability will be liquidated with expendable available financial resources.

The proprietary fund uses the economic resources measurement focus and the accrual basis of accounting. This means that proprietary fund is reported in the same way that all activities are reported in the government-wide financial statements.

Government-Wide

The Government-Wide financial statements include the statement of net position and the statements of activities and display information of all the activities of the Administration as a whole. The Administration's activities are considered governmental type.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

Net Position

Net position is the difference between assets and liabilities in governmental wide statements. Net position is reported in three (3) categories:

- a. **Invested in capital assets** – These consist of capital assets, net of accumulated depreciation.
- b. **Restricted net assets** – Results when constraints placed on net assets use are externally imposed by grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- c. **Unrestricted (deficit)** – These consist of amounts which do not meet the definition of the two preceding categories. Unrestricted (deficit) net position often has constraints on resources that are imposed by management, but can be removed or modified.

Federal grant revenues are recorded in the accounting period in which they are expended. Legislative appropriations, representing annual appropriations from the Commonwealth of Puerto Rico are recorded when measurable and available.

Budget

As an Executive Agency of the Commonwealth of Puerto Rico, the Administration uses the following procedures in establishing the budget adopted for the general fund:

- a. The Administration's management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).
- b. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body to the legislature.
- c. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project was prepared (the 1st of July of each year).
- d. Once the budget project is approved, legally adopted and in operations, the Administration's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Department of Treasury.
- e. Formal budget integration is employed as a management control devise during the fiscal year for the general fund.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

- f. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

Information concerning the budget adopted has been compiled by the Administration in a manner that could be used to present Budget and Actual – Budget Basis – General Fund (Executive) as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statements purposes, the Administration considers the executive funds (shown as Fund accounting 111 in PRIFAS System) authorized, in order to present the compliance with budget adopted, which lapses at the end of fiscal year.

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

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

1. Encumbrances are considered as expenditures for budgetary purposes.
2. Prior year encumbrances settled during the year are recorded as expenditures for GAAP basis.
3. Effect of revenues recorded in PRIFAS System other than those of accounting Fund 111.

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COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
 FOR THE YEAR ENDED JUNE 30, 2015

The Following is the reconciliation of the difference between GAAP and the budgetary basis for the general fund excess of revenues and other financing sources over expenditures:

Excess (deficiency) of resources over charges to appropriations from the budgetary comparison schedule	\$ 401,330
 <u>Differences - Budget to GAAP:</u>	
Current year encumbrances for supplies and services ordered but not received is reported in the year the order or contract is signed for budgetary purposes, but in the year they are received for financial reporting purposes and are recorded as current year expenditures for budgetary purposes	40,659
Prior year encumbrances settle during current year are expenditures of the General Fund in statement of Revenues, Expenditures and Charges in Fund Balance but not reported as such in the current year budget comparison schedule	<u>(93,460)</u>
Total revenues over expenditures in the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance	<u>\$ 348,529</u>

Encumbrances

Encumbrances accounting is provided to record the appropriation from available resources in the governmental funds of purchase orders and contracts for which goods and/or services have not been received. Under GAAP, encumbrances outstanding at year end constitute expenditure or liabilities since the commitments will be honored during subsequent year(s). Encumbrances constitute the equivalent of expenditures for budgetary purposes.

Capital Assets

All buildings and infrastructure occupied by the Administration are recorded as capital assets in the accounting records of another Agency of the Commonwealth of Puerto Rico. Accordingly, all major modernizations and betterments done by the Administration are charged to expenditures in its Fund accounting and reported as expense in the government wide statements when incurred. All other assets used in the governmental operations are accounted for in the Governmental-wide financial statements of net position, rather than in the Governmental Funds. When capital assets are purchased, they are recorded as expenditures in the governmental funds. Fixed assets are stated at cost.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

When assets are sold, retired or otherwise disposed of, the cost is removed. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets range from five (5) to fifteen (15) years.

Vacation and Sick Leave

The Administration's employees are entitled to 2.5 days per month up to maximum of 60 days for vacations, and 1.5 days per month up to maximum of 90 days for sick leave. Vacation and sick leave are recorded as benefits when earned. The estimated values of leave earned by employees, that may be used in subsequent years or paid upon termination or retirement, are accounted for in the governmental activities statement of net position rather than in the governmental funds.

Fund Balance Reporting

The Administration implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

GASB Statement No. 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, the definitions of the general fund, special revenue fund type, capital projects fund type, debt services fund type, and permanent fund type are clarified by the provisions in this Statement.

Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

In the fund financial statements of the Administration, governmental funds report amounts for two of the five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance, committed fund balance and unassigned fund balance classifications are not used. Fund balance classifications are described below:

- 1. Non-Spendable Fund Balance.** This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

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VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
FOR THE YEAR ENDED JUNE 30, 2015

2. **Restricted Fund Balance.** This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. **Committed Fund Balance.** These amounts can only be used for specific purposes pursuant to constraints imposed by the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the same group removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
4. **Assigned Fund Balance.** This classification reflects the amounts constrained by the Administration to be used for specific purposes, but are neither restricted nor committed.

Assigned Fund Balance include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

5. **Unassigned Fund Balance.** This fund balance is the residual classification for the General Fund. This classification represents General fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

When both restricted and unrestricted resources are available for use, it is the Administration's policy to use externally restricted resources first, then unrestricted resources committed, assigned, and unassigned in order as needed.

Deferred Outflows / Inflows or 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 (expense / expenditure) until then.

In addition to liabilities, the Statement of Financial 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.

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The government has two items that qualify for reporting in this category:

1. **Government-mandated or voluntary non-exchange transactions received before the time requirements have been met** – Federal and state grants received before the beginning of the fiscal year to which they pertain are recognized as deferred inflows of resources on both the balance sheet to the governmental funds and in the government-wide statement of net position (deficit). The amounts deferred would be recognized as an inflow of resources (revenue) in the period in which the time requirements are fulfilled.
2. **Unavailable revenue reported under the modified-basis of accounting** – Amounts collected or to be collected after the availability period are recognized as unavailable revenue in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources (revenue) in the period that the amounts become available. Since this deferred inflow of resources is the result of the modified-accrual basis of accounting, it is only reported in the governmental fund financial statements.

Note 3 – Custodial Credit Risk

Custodial credit risk is that in the event of bank failure, government's deposit may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2015 the government's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 1,090,633</u>
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Note 4 – Resources With Fiscal Agent

The funds of the Administration are under the custody of the Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico, pursuant to Act. No. 230 of July 23, 1974, as amended known as the "Accounting Law of the Commonwealth of Puerto Rico". The Department of the Treasury follows the practice of pooling resources under the custody of the Secretary of the Treasury. The resources of the Administration are pooled in cash accounts of the Commonwealth of Puerto Rico to meet the Administration's current operating requirements.

Note 5 – Risk Financing

The Commonwealth of Puerto Rico purchases commercial insurance covering casualty, theft, tort, claims and other losses for the Administration. The Administration reimburses to the Commonwealth for premium payments made on its behalf. The Administration's current insurance policies have not been cancelled or terminated. For workers compensation, the State Insurance Fund Corporation, a component unit of the

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

Commonwealth of Puerto Rico, provides the workers compensation to the Administration's employees in case of injuries in the workplace.

Note 6 – Accounts Receivables

The balance in accounts receivable of governmental activities mainly represents federal funds expended on or before June 30, 2015, that were reimbursed by the Federal Government during fiscal year ending June 30, 2016.

The balance in accounts receivable of business type activities mainly represents credit sales of products.

Note 7 – Capital Assets

Capital assets' activity of the Administration for fiscal year ended June 30, 2015 was a follows:

	<u>Balance as of</u> <u>30-Jun-14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of</u> <u>30-Jun-15</u>
Governmental Activities:				
Capital Assets being, depreciated:				
Equipment	\$ 10,110,774	\$ -	\$ 163,367	\$ 9,947,407
Furniture	835,610	-	-	835,610
Vehicles	109,460	-	-	109,460
	<u>11,055,844</u>	<u>-</u>	<u>163,367</u>	<u>10,892,477</u>
Total Capital assets being, depreciated				
Less accumulated depreciation:				
Equipment	8,888,727	735,270	163,367	9,460,630
Furniture	351,638	69,554	-	421,192
Vehicles	109,460	-	-	109,460
	<u>\$ 9,349,825</u>	<u>\$ 804,824</u>	<u>\$ 163,367</u>	<u>\$ 9,991,282</u>
Total accumulated depreciation				
Governmental activities capital assets net	<u>\$ 1,706,019</u>	<u>\$ (804,824)</u>	<u>\$ -</u>	<u>\$ 901,195</u>

Governmental Activities depreciation expense was charged to the Management and support function.

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

	<u>Balance as of</u> <u>30-Jun-14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance as of</u> <u>30-Jun-15</u>
Business Type Activities:				
Capital Assets being, depreciated:				
Equipment	\$ -	\$ 91,039	\$ -	\$ 91,039
Furniture	-	122,836	-	122,836
Vehicles	-	38,800	-	38,800
Building improvements	-	450,153	-	450,153
Total Capital assets being, depreciated	-	702,828	-	702,828
Less accumulated depreciation:				
Equipment		79,709	-	79,709
Furniture		110,784	-	110,784
Vehicles		38,800	-	38,800
Building improvements		270,403	-	270,403
Total accumulated depreciation	\$ -	\$ 499,696	\$ -	\$ 499,696
Business type activities capital assets, net	\$ -	\$ 203,132	\$ -	\$ 203,132

Cost of capital assets of the Program at the time of the transfer amounted \$686,575 and accumulated depreciation on those assets was \$439,024. These amounts were recorded as additions during the year.

Note 8 – Accrued Compensated Absences

The vested compensated absences liability balance at June 30, 2015 consists of the following activity:

	<u>Balance as of</u> <u>June 30, 2014</u>	<u>Net Change</u>	<u>Balance as of</u> <u>June 30, 2015</u>	<u>Due within</u> <u>one year</u>
Governmental Activities:				
Accrued vacations and sick leave	\$ 8,695,758	\$ 48,800	\$ 8,744,558	\$ 4,986,197
Business Type Activities:				
Accrued vacations and sick leave	\$ -	\$ 109,719	\$ 109,719	\$ 46,434

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

Note 9 – Voluntary Termination Benefits

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50% of each employee salary, as defined. In this early retirement benefit program, the Administration will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have at the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employee that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Administration.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Administration's financial statements of a liability of \$6,705,572 in the statement of net position as of June 30, 2015 and a reduction of \$757,818 in the Statement of Activities for the year ended June 30, 2015. At June 30, 2015, unpaid long-term benefits granted on this program were discounted at 2.12%.

Governmental activities:	<u>Balance as of</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances as of</u> <u>June 30, 2014</u>	<u>Due within</u> <u>One year</u>
Accrued termination benefits	<u>\$ 7,463,390</u>	<u>\$ 111,452</u>	<u>\$ 869,270</u>	<u>\$ 6,705,572</u>	<u>\$ 875,325</u>

Note 10 – Retirement Plan

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

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

The system operates under Act 447, approved on May 15, 1951 effective on January 1, 1952 and Act 1 of February 16, 1990 for employees that entered as participants of the Plan starting April 1, 1990 and ending December 31, 1999. Under this Act, retirement benefits were determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation was computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member was eligible, was limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS. Act No. 305 of September 24, 1999 amended Act. No. 447 of 1951 and Act 1 of February 16, 1990 to establish a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the Act 447 system as of December 31, 1999 had the choice to either stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 were only allowed to become members of the new program. System 2000 was a hybrid defined contribution plan, also known as a cash balance plan. There would be a pool of pension assets, which would be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age would not be guaranteed by the State government and would be subjected to the total accumulated balance of the savings account. The annuity would be based on a formula, which assumed that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) would be invested in an account which would either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If the savings accounts balance was \$10,000 or less at time of retirement, the balance would be distributed by the System to the participant as a lump sum. Participants received periodic account statements similar to those of defined contribution plans showing their accrued balances. The employer contributions (11.275% of the employee's salary) would be used to fund the plan. Under System 2000 the retirement age was reduced from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990. The Act No. 447, as amended, was the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities were established or amended. Plan members were required to contribute 5.775% of gross salary up to \$6,600 plus 8.275% of gross salary in excess of \$6,600 except for the Mayor or employee under a supplementation plan, which contributed 8.275% of gross salary. In order to address the unfunded actuarial accrued liability of the System, on July 6, 2011 (effective July 1, 2011) the Commonwealth Legislature approved Act No. 116 increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year

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FOR THE YEAR ENDED JUNE 30, 2015

2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. The purpose of this Act was to provide cash flow and strength the System to adequately cover administrative expenses and payment of benefits.

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

- All participants (employees) under the defined benefit pension plans (Act 447 and Act 1) and the defined contribution plan (System 2000) were moved to a new hybrid plan ("New Plan").
- For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the New Plan. Participants will receive a pension at retirement age equivalent to what they had accrued under Act No. 447 and Act 1 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.
- Participants under System 2000 will no longer receive a lump-sum payment upon retirement, but rather a lifetime annuity calculated at retirement based on a factor that will incorporate the individual's life expectancy and a rate of return.
- New participants under the New Plan will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment)
- Eliminated the possibility of accruing a merit pension (payable once the participant had achieved 30 years of creditable service) after June 30, 2013.
- Increased employee contributions from 8.275% to a minimum of 10.000%.
- After July 1, 2013 all employers must contribute 12.275% of employee contribution with an additional 1% annually up to June 30, 2016; after July 1, 2016 an additional 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020. These contributions will be used to increase the System's assets, reduce the actuarial deficit and enable the System to comply with future obligations.
- Retirement age was modified as follows:
 - Act No. 447 regular employees: age 58 to 61,

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

- Act No. 447 high risk employees (state and municipal police, firefighters and custody officials): from age 50 to 55 years,
- Act No. 305 (System 2000) regular employees: age 60 to 65; high risk employees remains the same (55 years).

Act 1 employees remained the same (65 years for regular employees and 55 for high risk employees. For new employees under the New Plan will retire after 67 years (retirement age will be 67 for regular employees and 58 for high risk employees).

- Due to changes to Special Laws (see note 14), the minimum monthly pension for current retirees was increased from \$400 to \$500.
- Disability benefits were eliminated and substituted for a mandatory disability insurance policy. Beginning July 1, 2013, each employee must contribute to this insurance plan .25% of his or her monthly salary, up to a monthly maximum of \$5,000. Therefore, the maximum monthly employee contribution will be \$12.50 (\$5,000 x .25%).
- Survivor benefits were modified.

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

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

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

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

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

Note 11 – Postemployment Benefits

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

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

Act 3 also established that employers will contribute \$2,000 per for each retiree that began working for the government on or before December 31, 1999. This contribution was established based on the assumption that the System will benefit from the savings generated between this employer contribution and the Special Law benefits paid out to retirees.

Note 12 – Contingencies

Litigation and Claims

The Commonwealth of Puerto Rico's Law 104 of June 30, 1955, as amended, known as Claims and Lawsuits against the State provides that lawsuits initiated against an agency or instrumentality of the Commonwealth of Puerto Rico, present and former employees, directors and other may be represented by the Department of Justice of

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUATION)
 FOR THE YEAR ENDED JUNE 30, 2015

the Commonwealth of Puerto Rico. Any adverse claims to the defendants are to be paid by the Commonwealth of Puerto Rico General Fund.

However, the Secretary of the Treasury of the Commonwealth of Puerto Rico has the discretion of requesting reimbursement of the funds expended for these purposes from the public corporations, governmental institutions and municipalities of the defendants.

According to management of the Administration, there are several claims and lawsuits against the Administration arising out of, and incident to its operations. In the opinion of management, the effect of such claims and lawsuits on the ability of the Administration to carry on its operations and programs is not material.

Federal Awards

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

Note 13 – Commitments

Operating Leases

The Administration 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 Administration’s option upon 30 days written notice to the lessor. Rental expenditures for the year ended June 30, 2015 amounted to approximately \$4,913,284. Future operating lease commitments are scheduled as follows:

Year Ending June 30	Amount
2016	\$ 2,591,000
2017	1,034,000
2018	277,000
2019	185,500
2020-2040	<u>1,500,000</u>
	<u>\$ 5,587,500</u>

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

Encumbrances

At June 30, 2015, the Administration had the following encumbrances by fund:

<u>Fund</u>	<u>Amount</u>
General	\$ 40,659
Federal Programs	<u>1,708,430</u>
	<u>\$ 1,749,089</u>

Note 14 – Subsequent Events

Management has evaluated subsequent events through March 28, 2016, which is the date the financial statements were available to be issued and determined that no material subsequent events require an estimate to be recorded or disclosed as of June 30, 2015.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (NON-GAAP)
YEAR ENDED JUNE 30, 2015

	Budget Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUE				
Management and support Vocational rehabilitation services	\$ 4,838,794	\$ 4,797,011	\$ 4,797,011	\$ -
	<u>12,292,206</u>	<u>12,292,206</u>	<u>12,292,206</u>	<u>-</u>
Total	<u>17,131,000</u>	<u>17,089,217</u>	<u>17,089,217</u>	<u>-</u>
CHARGES TO APPROPRIATIONS				
Management and support Vocational rehabilitation services	4,838,794	4,797,011	4,586,529	210,482
	<u>12,292,206</u>	<u>12,292,206</u>	<u>12,288,278</u>	<u>3,928</u>
Total	<u>17,131,000</u>	<u>17,089,217</u>	<u>16,874,807</u>	<u>214,410</u>
Excess (deficiency) of resources over charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,410</u>	<u>\$ 214,410</u>

COMMONWEALTH OF PUERTO RICO
 VOCATIONAL REHABILITATION ADMINISTRATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor and Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Direct programs:			
Rehabilitation Services			
Vocational Rehabilitation Grants to States	84.126		\$ 67,161,526
Independent Living			
States Grants	84.169		219,495
Independent Living Services for Older Individuals who are Blind			
States Grants	84.177		466,844
Supported Employment Services for Individuals with Severe Disabilities			
Supported Employment State Grants	84.187		600,000
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265		<u>184,206</u>
Total Expenditures of Federal Awards			<u>\$ 68,632,071</u>

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VOCATIONAL REHABILITATION ADMINISTRATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards presents the funds expended by the Administration from all federal programs for the year ended June 30, 2015. The Administration's reporting entity is defined in Note 1 to the financial statements.

Note 2 – Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization and was prepared following the modified accrual basis of accounting.

Note 3 – Major Program

The purpose of Title 1 of the Rehabilitation Act of 1973, as amended (Act), which authorized the Vocational Rehabilitation (VR) program, is to assist states in operating a comprehensive, coordinated, effective, efficient, and accountable program that is designed to assess, plan, develop, and provide VR services for individuals with disabilities, consistent with their strengths, resources, priorities, concerns, abilities, and capabilities, so such individual may prepare for and engage in gainful employment (Section 100(a) of the Act). Total Vocational Rehabilitation Program disbursements for the fiscal year ended June 30, 2015 amounted to \$ 68,632,071.



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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**

Commonwealth of Puerto Rico
Vocational Rehabilitation Administration
(A Component Unit of Puerto Rico Department of Labor and Human Resources)
San Juan, 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico - Vocational Rehabilitation Administration (A Component Unit of Puerto Rico Department of Labor and Human Resources) (the Administration) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements, and have issued our report thereon dated March 28, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

CMR & CO.

CMR & CO CPA-PSC
San Juan, Puerto Rico
March 28, 2016

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 256 Expires Dec 1, 2016

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CMR & Co.

Certified Public Accountants
& Consulting Advisors

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

Commonwealth of Puerto Rico
Vocational Rehabilitation Administration
(A Component Unit of Puerto Rico Department of Labor and Human Resources)
San Juan, Commonwealth of Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of Puerto Rico - Vocational Rehabilitation Administration's (A Component Unit of Puerto Rico Department of Labor and Human Resources) (the Administration) compliance with the types of compliance requirements described in "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that could have a direct and material effect on each of the Administration's major federal program for the year ended June 30, 2015. The Administration's major federal program is identified in the summary of Auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Administration is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Administration'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 Local Area's internal control over compliance.

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

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



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

CMR & CO.

CMR & CO CPA-PSC
San Juan, Puerto Rico
March 28, 2016

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COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2015

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

Type of auditor’s report issued:	Governmental Activities – Adverse Business Activities – Unmodified General Fund – Unmodified Federal Programs Fund – Unmodified Other Governmental Funds - Unmodified
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Internal Control over financial reporting:

Material weaknesses identified?	NO
Significant deficiencies identified that are not considered to be material weaknesses?	NO
Non-compliance material to financial statements noted?	NO

Federal Awards:

Internal Control	
Material weaknesses identified?	NO
Significant deficiencies identified that are not considered to be material weaknesses?	NO
Type of auditor’s report issued on major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	NO
Identification of major program as noted below:	YES

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUATION)
YEAR ENDED JUNE 30, 2015

<u>CFDA Numbers</u>	<u>Name of Federal Programs</u>	<u>Funding Source</u>
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	U.S. Department of Education
Dollar threshold used to distinguish between A and B programs:		
	\$2,058,962	
Auditee qualified as low-risk auditee?		
	YES	because adverse opinion in the Administration Governmental Activities does not affect management of federal awards

SECTION II – FINANCIAL STATEMENTS FINDINGS

During our audit we did not detect deficiencies, significant deficiencies, or instances of noncompliance related to the Administration basic financial statements that are required to be reported in accordance with Government Auditing Standards.

SECTION II – FEDERAL AWARDS FINDINGS

During our audit:

- We did not detect non compliances with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on the Administration’s major federal program.
- We did not detect deficiencies, significant deficiencies, or material weaknesses related to internal control over compliance on the laws, regulations, contracts, and grants that could have a direct and material effect on the Administration’s major federal program.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
REPORT ON THE STATUS OF UNCORRECTED MATERIAL FINDINGS
AND RECOMMENDATIONS FROM PRIOR AUDITS THAT AFFECT THE FINANCIAL STATEMENT AUDITS
AS REQUIRED BY GOVERNMENT AUDITING STANDARDS
YEAR ENDED JUNE 30, 2015

Nothing to report.

COMMONWEALTH OF PUERTO RICO
VOCATIONAL REHABILITATION ADMINISTRATION
INDEPENDENT AUDITOR'S CONCLUSION ON THE SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

Nothing to conclude.