
COMMONWEALTH OF PUERTO RICO

PUERTO RICO FIRE DEPARTMENT

BASIC FINANCIAL STATEMENTS – CASH
BASIS, REQUIRED SUPPLEMENTARY
INFORMATION AND INDEPENDENT AUDITORS'
REPORT (WITH ADDITIONAL REPORTS
REQUIRED BY THE SINGLE AUDIT ACT OF
1984, AS AMENDED)

For the Year Ended June 30, 2015



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- American Institute of Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT

Chief Angel A. Crespo Ortiz
Commonwealth of Puerto Rico
Puerto Rico Fire Department
San Juan, Puerto Rico

Report on the Financial Statement

We have audited the accompanying financial statements – cash basis of the governmental activities, each major fund, and the aggregated remaining fund information arising from cash transactions of the **Puerto Rico Fire Department of the Commonwealth of Puerto Rico (the PRFD)** as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **PRFD's** basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in **Note 1**, this includes determining that the cash basis of accounting is acceptable basis for the preparation of the financial statements in these circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the governmental activities, each major fund, and the aggregate remaining fund information of the PRFD for the year ended June 30, 2015, in conformity with the basis of accounting described in **Note 1**.

Basis of Accounting

As described in **Note 1**, the PRFD prepares its basic financial statements on the basis of cash receipts and cash disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as described in **Note 1**, the financial statements of the PRFD are intended to present the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the PRFD.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages **4** through **10** 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 the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the PRFD's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-profit Organizations, is presented 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 statement receipts and disbursements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of receipts and disbursements or to the statement of receipts and disbursements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



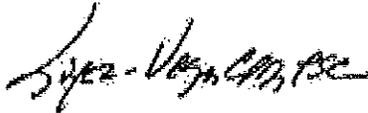
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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2016, on our consideration of PRFD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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 PRFD's internal control over financial reporting and compliance.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 18, 2016

Stamp No. 2728469 of the Puerto Rico

Society of Certified Public Accountants

was affixed to the record copy of this report.



López-Vega, CPA, PSC

Certified Public Accountants / Management Advisors

INTRODUCTION

As management of the **Commonwealth of Puerto Rico Fire Department (PRFD)**, we offer to the readers of this annual financial report our discussion and analysis of the **PRFD's** financial performance during the fiscal year ended June 30, 2015. The following discussion and analysis has been designed to accomplish the following goals:

- Assist the reader in focusing on significant financial issues;
- Provide an overview of the **PRFD's** financial activity;
- Identify any material deviations from the financial plan (the approved budget), and;
- Identify individual fund issues or concerns.

Since the MD&A is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the **PRFD's** financial statements.

ORGANIZATION AND MISSION STATEMENT

The **PRFD** was created by Law No. 43 of June 21, 1988. The purpose of the **PRFD** is to prevent and fight fires, save lives, assure the adequate protection of the general public against fire, and to determine, once the incident occurred, the origin and cause of the fire. The **PRFD** is headed by a Chief appointed by the Governor of Puerto Rico. Also, the **PRFD** has the following programs:

- **Fire Prevention and Extinguishing Fires Training Techniques** - This program is responsible for training all the members of the Firefighters Corps in the most advanced techniques of preventing and extinguishing of fires, rescue, first aid and medical assistance. It also organizes and trains: brigades, groups of volunteer firemen, and officials of the public and private sector in fire prevention extinguishing fires and rescue.
- **Fire Prevention and Education** - Development and implementation of measures directed at eradicating the risk of fire and educating the community.
- **Extinguishing and Controlling Fires** - Offers the following services: putting out fire, rescue in situations of emergency and disasters, protection in cases of natural disaster, and coordination with other agencies. Attends emergency calls in situations of fires, disasters and spills of dangerous materials. Is responsible for rapidly and efficiently, eradicating all types of fires, controlling its propagation and rescuing lives and properties. Assists the Prevention of Fires Program in functions of preventive nature, such as the education of young students (the Little Firemen Program) and offers orientation services to the community. It also is dedicated to the inspection and eradication of fire risks, as well as the investigation for determining origin and cause. Provides support to other government agencies, when deployed to attend to emergencies or simulations.
- **9-1-1 Emergency Service/Child Abuse Line** - Establishes a universal 9-1-1 telephone number for emergencies throughout Puerto Rico. The 9-1-1 code replaces the emergency numbers traditionally used and provides the Puerto Rican people with a uniform, easy to identify, access and dial number.

• **FINANCIAL HIGHLIGHTS**

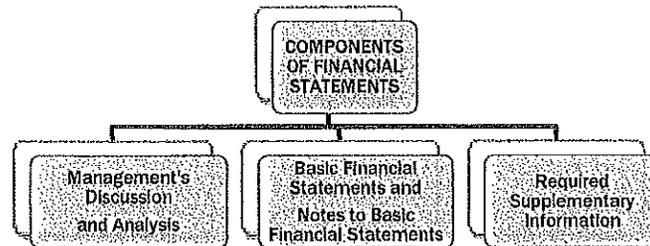
- In the **PRFD** Statement of Activities – Governmental Activities, the actual cash disbursements exceeded actual cash receipts by \$1,128,147.
- In the Combined Statement of Cash Receipts and Cash Disbursements – Governmental Funds Cash Receipts decreased by \$2,214,573 and cash disbursements decreased by \$3,642,928 when compared to prior year financial statements.
- The General Fund (the primary operating fund) reflected \$562,348 in cash disbursements over cash receipts. Also, the Other Governmental Funds reflected disbursements over cash receipts amounting to \$572,128. The Federal Fund reflected \$6,329 in cash receipts over cash disbursements.
- On a budgetary basis, actual cash receipts and disbursements amounted to \$62,502,542.

BASIC FINANCIAL STATEMENTS PRESENTATION

The approach used in the presentation of the financial statements of the **PRFD** is based on a government-wide view of such statements as well as a presentation of individual funds behavior during fiscal year 2014-2015. The combination of these two perspectives provide the user the opportunity to address significant questions concerning the content of said financial statements, and provide the basis for a comparable analysis of future years performance.

Overview of the Financial Statements

The **PRFD's** basic financial statements comprise three components: (1) management discussion and analysis, (2) basic financial statements, and (3) required supplementary information.



- **Basic Financial Statements** -The **PRFD** uses the cash basis of accounting to account for all funds administered. Under this method, revenue received is recognized as cash when funds are transferred – in and expenditures are recognized when funds are disbursed or transferred – out. Therefore, the statements are not intended to present the **PRFD** results of operations in accordance with accounting principles generally accepted in the United States of America.

BASIC FINANCIAL STATEMENTS PRESENTATION (Continued)

Overview of the Financial Statements (Continued)

The Statement of Activities is presented in the cash basis, which presents the cash receipts and cash disbursements of only that portion of the financial reporting entity of the Commonwealth of Puerto Rico that is attributable to the transactions of the **PRFD**. The Financial Statements also includes notes to the Statement of Activities – Cash Basis section that explains some information in the financial statements and provides more detailed data.

The Combined Statement of Cash Receipts and Cash Disbursements for all Governmental Funds provide detailed information about the **PRFD** most significant funds, not the **PRFD** as a whole.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government - Wide Financial Statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, users of the basic financial statements may better understand the long-term impact of the **PRFD's** near term financial decisions.

- **Notes to the Financial Statements** – Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements and provide more detailed data.
- **Required Supplementary information** – Provides additional information to better understand the financial position of the **PRFD** and contains the Budgetary Comparison Schedule for the General Fund.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Statement of Activities

The **PRFD's** cash receipts decreased by \$2,214,573 representing a decrease of 3.13% compared to prior year financial statement. Approximately 92.48% of **PRFD's** total cash receipts came from state-general fund assignments, while 0.89% resulted from federal grants. The receipts derived from charges for service and other income amounted to \$4,545,478 and represent 6.63% of the **PRFD's** total cash receipts. The **PRFD's** disbursements cover a range of services. The following table includes a comparative analysis for readers to have a comparative information with the percentage of change in cash receipts and disbursements from prior year to current year.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (Continued)

Statement of Activities (Continued)

Statements of Activities	2015	2014	Change	%
Program cash receipts:				
Legislative appropriations	\$ 63,392,239	\$ 66,020,259	\$ (2,628,020)	(3.98)%
Federal programs	609,814	860,780	(250,966)	(29.16)%
Charges for services	3,520,994	3,456,058	64,936	1.88%
Other income	1,024,484	425,007	599,477	141.05%
Total cash receipts	68,547,531	70,762,104	(2,214,573)	(3.13)%
Program cash disbursements:				
Payroll and fringe benefits	61,139,327	64,269,701	(3,130,374)	(4.87)%
Professional services	91,278	80,609	10,669	13.24%
Rent	1,023,590	839,844	183,746	21.88%
Repairs and maintenance	73,100	188,494	(115,394)	(61.22)%
Materials	1,852,164	2,381,263	(529,099)	(22.22)%
Utilities	2,485,177	2,310,981	174,196	7.54%
Equipment	1,192,874	1,881,377	(688,503)	(36.60)%
Insurance	390,000	391,603	(1,603)	(0.41)%
Other expenses	1,428,168	974,734	453,434	46.52%
Total cash disbursements	69,675,678	73,318,606	(3,642,928)	(4.97)%
Deficiency of cash receipts under cash disbursements	\$ (1,128,147)	\$ (2,556,502)	\$ 1,428,355	(55.87)%

Governmental Fund Financial Statements

The governmental fund financial statements focus on major funds. The PRFD's major funds are the general fund (which accounts for the main operating activities of the PRFD), federal fund (which account for all grants received from the federal programs) and other governmental funds (which account for other legislative resolutions, fees and charges for services and other income). The PRFD's Combined Statement of Cash Receipts and Cash Disbursements for fiscal year ended June 30, 2015, presented those three major funds.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (Continued)

The following figures provide information about how the governmental entity financed its activities and distributes the resources during the past two years.

Figure 1
 CASH RECEIPTS COMPARISON

FIGURE 1 presents cash receipts comparison during the past two years

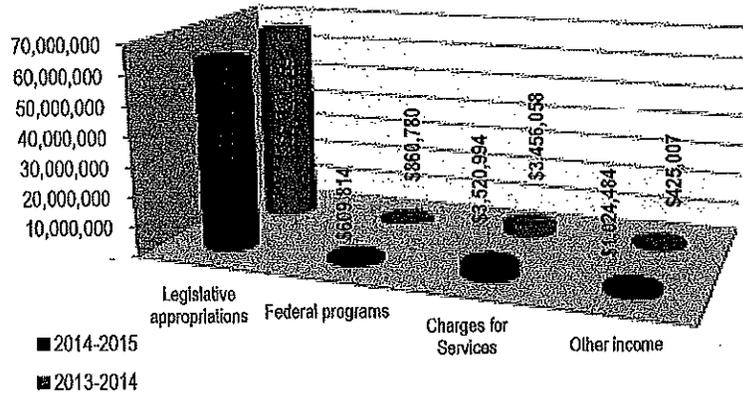
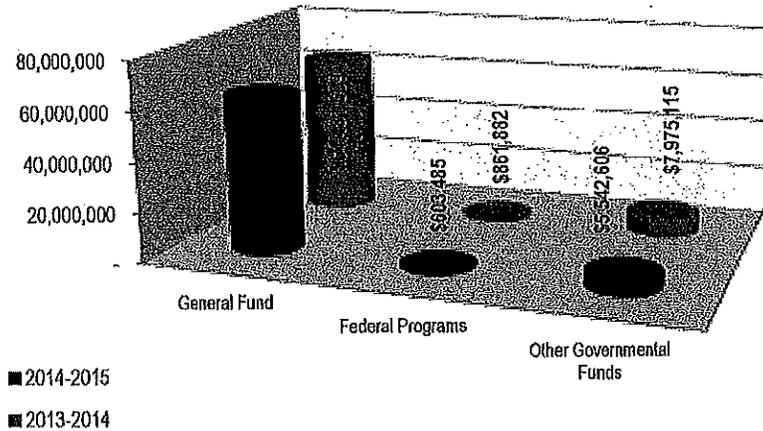


Figure 2
 CASH DISBURSEMENTS COMPARISON

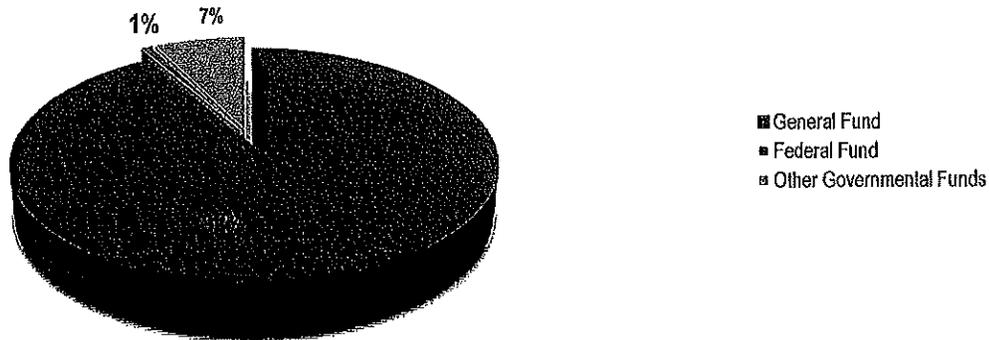
FIGURE 2 presents cash disbursements comparison during the past two years



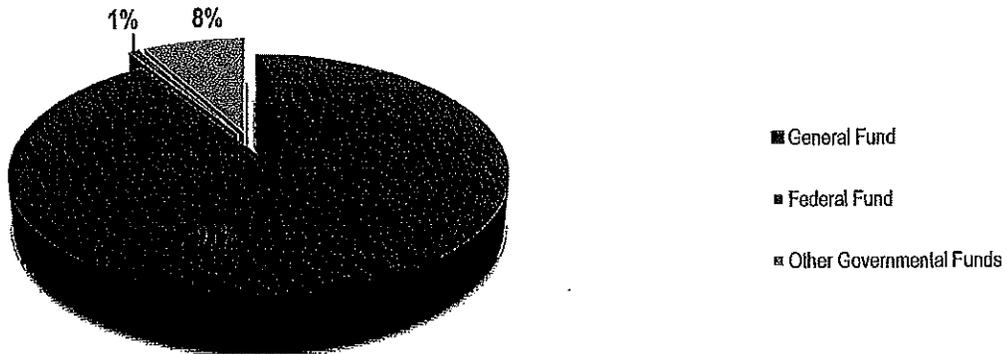
FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE (Continued)

The following figures present how governmental activities of the PRFD's basic services were financed and distributed. These activities are primarily financed through state assignments, federal grants, charges for services and other revenues. The accounts of the PRFD are organized on three fund types: general fund, federal fund and other governmental funds. The PRFD maintains appropriations for various individual state and federal funds within each fund type. The state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the operations of the PRFD and appropriations granted for specific purposes, respectively. The measurement focus of the PRFD's governmental funds is to provide information on near-term inflows, outflows and balances of resources available for spending and determination of the excess (deficiency) of receipts over (under) cash disbursements, rather than upon net income determination. Such financial information is useful in assessing the PRFD's financing requirements.

Cash Receipts 2015



Cash Disbursements 2015



GENERAL FUND BUDGETARY HIGHLIGHTS

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the **PRFD**. The procedures followed for approval and operations of the budget are defined by the laws of Commonwealth of Puerto Rico. The approved budget for fiscal year 2014-2015 amounted to \$62,524,805. On a budgetary basis, actual cash receipts and disbursements amounted to \$62,502,542.

FINANCIAL CONTACT

The **PRFD's** financial statements are designed to present the readers with a general overview of the cash receipts and cash disbursements of the **PRFD**. Questions or concerns regarding any information in this report or requests for additional information should be addressed to the Commonwealth of Puerto Rico Fire Department, PO Box 13325, San Juan, and P.R. 00908-3325.

Program cash disbursements:

Payroll and other fringes benefits	\$ 61,139,327
Professional services	91,278
Rent	1,023,590
Repairs and maintenance	73,100
Materials	1,852,164
Utilities	2,485,177
Equipment	1,192,874
Insurance	390,000
Other expenses	1,428,168

Total program cash disbursements 69,675,678

Program cash receipts:

Legislature appropriations	63,392,239
Federal programs	609,814
Charges for services	3,520,994
Other revenues	1,024,484

Total program cash receipts 68,547,531

**Excess (deficiency) of receipts
Over (under) disbursements** \$ (1,128,147)

See accompanying notes to basic financial statements -- cash basis.

**COMMONWEALTH OF PUERTO RICO
 PUERTO RICO FIRE DEPARTMENT**

**STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS –
 GOVERNMENTAL FUNDS – CASH BASIS**

For the Fiscal Year Ended June 30, 2015

	General Fund	Federal Fund	Other Governmental Funds	Total
Cash Receipts:				
Legislative appropriations	\$ 62,967,239	-	\$ 425,000	\$ 63,392,239
Federal appropriation	-	609,814	-	609,814
Changes for services	-	-	3,520,994	3,520,994
Other Income	-	-	1,024,484	1,024,484
	<u>62,967,239</u>	<u>609,814</u>	<u>4,970,478</u>	<u>68,547,531</u>
Cash Disbursements:				
Payroll and other fringes benefits	60,698,063	-	441,264	61,139,327
Professional services	-	-	91,278	91,278
Rent	680,000	-	343,590	1,023,590
Repairs and maintenance	-	-	73,100	73,100
Materials	208,000	30,852	1,613,312	1,852,164
Utilities	1,553,524	-	931,653	2,485,177
Equipment	-	447,865	745,009	1,192,874
Insurance	390,000	-	-	390,000
Other expenses	-	124,768	1,303,400	1,428,168
	<u>63,529,587</u>	<u>603,485</u>	<u>5,542,606</u>	<u>69,575,678</u>
Deficiency of receipts under disbursements	<u>\$ (62,348)</u>	<u>\$ 6,329</u>	<u>\$ (572,128)</u>	<u>\$ (1,128,147)</u>

See accompanying notes to basic financial statements – cash basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The **Commonwealth of Puerto Rico Fire Department (PRFD)** is a governmental organization created by Law No. 43 of June 21, 1988. The purpose of the **PRFD** is to prevent and fight fires, save lives, assure the adequate protection of the general public against fire, and to determine, once the incident occurred, the origin and cause of the fire. The **PRFD** is headed by a Chief appointed by the Governor of Puerto Rico with the advice and consent of the Senate.

Basis of presentation

The accounts of the **PRFD** are organized on the basis of the three fund types: general fund, federal fund, and others governmental funds. The **PRFD** maintains appropriations for several individual state and federal funds within each fund type. Those state appropriations are presented as general fund and other governmental funds, which correspond to the funds accounted for the **PRFD** and appropriations granted for specific purposes, respectively. As more fully explained in the section "Basis of Accounting" below, each fund is accounted for with a set of accounts which include only receipts and disbursements. No balance sheet accounts are reported. The individual funds account for the governmental resources allocated to them for purposes of carrying on specific activities in accordance with laws, regulations and other restrictions. State funds are appropriated by the Legislature of the Commonwealth of Puerto Rico and are funds through which most functions typically are financed. Federal funds reflect the federal financial assistance managed by the **PRFD** from programs funded by the Federal Government. The individual funds included in these fund type are classified accordance with their cost category.

Basis of accounting

The **PRFD** follows a receipts and disbursements method of accounting to account for all funds administered under this method, cash or funds transfer-in are recognized as revenues when received, and expenditures are recognized when funds are disbursed or transferred-out. Therefore, the Statement of Receipts and Disbursements is not intended to present the **PRFD's** results of operations in accordance with generally accepted accounting principles in the United States of America.

Budgetary accounting

Formal budgetary accounting is employed as a management control tool for all funds of the **PRFD**. Annual operating budgets are adopted each fiscal year through passage of an annual budget, which is approved by the Legislature of the Commonwealth of Puerto Rico and amended, if is required, throughout the year. Budgetary control procedures required the obligation of funds before purchase orders can be placed; it means that applicable appropriations must be reserved before purchase orders or contracts can be entered into. Obligated appropriations at year end carryover to the next fiscal year and are not reported as part of the next fiscal year's budget. For budgetary purposes, encumbrances accounting is used. The encumbrances (that is, purchase order and contracts) are considered expenditures when paid.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Excess (deficiency) statement line

The excess (deficiency) of receipts over (under) disbursement statement lines represent a summation of the combined receipts and disbursements. Consequently, amounts shown in these lines are not comparable to an excess or deficiency over funds assigned and not represent a deficit of the PRFD.

2. FEDERAL FUNDS TRANSACTIONS

The excess of receipts over disbursements of \$6,329 presented on the Statement of Receipts and Disbursements for the Federal Fund column is related to receipts received and accounted for during fiscal year 2015, but the disbursements related to those funds were accounted in the federal fund accounts during the fiscal year ended June 30, 2014.

3. PENSION PLAN BENEFITS

General information about the pension plan

As of June 30, 2015, regular employees of the PRFD contribute to a cost-sharing multiple employer hybrid defined benefit and defined contribution retirement plan administered by the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS). ERS covers all regular full-time public employees working for the central government, the municipalities of Puerto Rico and certain public corporations not having their own retirement systems. The system provides retirement pensions, death, and disability benefits. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation. The pension plan operates under Act No. 447 of May 15, 1951, as amended, Act No. 305 of September 24, 1999 (System 2000 Reform) and Act No. 3 of April 4, 2013.

Under Act 447, 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. For active participants of the contributory defined benefit programs under Act No. 447, all retirement benefits accrued through June 30, 2013 were frozen. Thereafter, all future benefits will accrue under the hybrid pension plan established by Act No. 3. Participants will receive a pension at retirement age equivalent to what they had accrued under Act 447 up to June 30, 2013, and a supplemental annuity corresponding to contributions made after July 1, 2013.

Participants under the defined contribution plan established by Reform System 2000 will receive 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 hybrid plan established by Act No. 3 will receive a lifetime annuity based on the accumulated balance of their individual accounts (employees' contributions plus a return on investment). The minimum monthly pension for current retirees is \$500.

3. PENSION PLAN BENEFITS (CONTINUED)

Disability benefits previously provided by Act No. 447 and Reform System 2000 were eliminated by Act No. 3 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 ($\$5,000 \times .25\%$).

Beginning 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. For the fiscal year ended June 30, 2015, the employer contribution rate was 13.275% and the total required annual contribution amounted to \$6,405,255. The PRFD made contributions amounted to \$4,112,811 and the Office of Management and Budget made payments on behalf of the PRFD amounted to \$2,292,444.

As required by Act 32 of June 25, 2015, the Additional Uniform Contribution (AUC) was established for 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. The PRFD's AUC for the fiscal year 2014-15, amounted to \$561,371.

4. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 3, the PRFD is required to cover annually the 3% increase in the retirement plan of its retired employees, as required by Commonwealth's laws. Also, the PRFD is required to finance costs related to the application of certain laws issued by the Commonwealth Government.

Those laws granted increases in pensions and other benefits to retired employees of the PRFD such as medicines bonus, Christmas and summer bonuses and death benefits. However, beginning July 1, 2013, Act 3 of 2013 eliminated certain laws benefits to future retirees.

For the year ended June 30, 2015, the cost related to these post-employment benefits amounted to \$2,706,219, which were paid by the P.R. Office of Management and Budget (OMB) on behalf of the PRFD.

5. COMPENSATED ABSENCES

The employees of the PRFD are classified as either civil or members of the Department. All employees accrue regular vacation and sick leave at 2.5 days and 1.5 days per calendar month, respectively. The allowed maximum number of accumulated days of regular vacation and sick leave is 60 days and 90 days, respectively.

During fiscal year 1997-98, the Legislature of the Commonwealth of Puerto Rico amended the Public Service Personnel Law to allow certain component units and the executive agencies of the Commonwealth to pay annually the accrued vacations and sick leave earned in excess of the limits mentioned above.

6. 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 **PRFD**. Act No. 70 establishes 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's salary, as defined. In this early retirement benefit program, the **PRFD** will make the employee and the employer's contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirement age and 30 years of credited service. Economic incentives are available to eligible employees who have less than 15 years of credited service, who have at least 30 years of credited service and the age for retirement, or who have 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.

For eligible employees that choose the economic incentives and have at least 30 years of credited service and the age for retirement or have the age for retirement, the **PRFD** will make the employee and the employer's contributions to the Retirement System for a five year period. Additionally, eligible employees that choose to participate in the early retirement benefit program of that choose the economic incentive and have less than 15 years of credited service are eligible to receive health plan coverage for up to 12 months in a health plan selected by the management of the **PRFD**. The total number of employees who were voluntarily terminated was four (4). During fiscal year ended June 30, 2015, no payments were made.

7. COMMITMENTS

Operational Leases- The **PRFD** is obligated under certain leases accounted for as operating leases that do not give rise to property rights or lease obligations; therefore, neither the assets nor the liabilities of the lease agreements are reflected in the accounting records. Most of the real property is leased from the Puerto Rico Public Buildings Authority, a component unit of the Commonwealth of Puerto Rico.

Rent paid during the fiscal year ended June 30, 2015 under these lease agreements amounted to approximately \$1,023,590. Information of the future minimum rental payments required under these operating leases was not available.

8. CONTINGENCIES

Litigation - The **PRFD** is defendant in lawsuits arising in the normal course of operations, principally from claims for alleged violation of civil rights and discrimination in employment practices. According to the laws of the Commonwealth of Puerto Rico, the **PRFD** is fully represented by the Puerto Rico Department of Justice in defense of all legal cases against the **PRFD**. Any claims with negative financial impact will be paid from the General Fund of the Commonwealth of Puerto Rico, with no effect on the budget or resources of the **PRFD**.

Federal Awards - The **PRFD** participates in a number of federal financial assistance programs funded by the Federal Government. Expenditures financed by these programs are subject to financial and compliance audits by the appropriated grantors or their representatives. If expenditures are disallowed due to noncompliance with grant program regulations, the **PRFD** may be required to reimburse the grantors for such expenditures.

9. SUBSEQUENT EVENTS

Subsequent events were evaluated through March 18, 2016, the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements, except as noted in the following paragraph.

Puerto Rico Fiscal and Economic Growth Plan

On September 9, 2015, the Working Group for the Fiscal and Economic Recovery of Puerto Rico established by the Governor Alejandro García Padilla by executive order EO 2015-022 submitted the Fiscal and Economic Growth Plan (FEGP), setting forth economic development, structural, fiscal and institutional reform measures intended to meaningfully reduce the Commonwealth's projected financing gaps. In order to ensure compliance with the FEGP measures, the Working Group proposes the implementation of a Control Board and new budgetary regulations, pursuant to proposed legislations known as the Fiscal Responsibility and Economic Revitalization Act (FRERA). The reform measures proposed by the FEGP, including the creation of the Control Board, have been submitted to the Commonwealth Legislature for review and final approval.

Application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its Instrumentalities

A law project has been submitted to the Congress of the United States of America requesting the application of Chapter 9 of the Federal Bankruptcy Law to the Commonwealth of Puerto Rico and its instrumentalities. The benefits available under Chapter 9 would permit the Commonwealth to restructure its debt with its bondholders, with the purpose of decreasing the interest costs and debt service requirements that consume a significant part of the Commonwealth's operating budget.

During the past months, the Governor and Resident Commissioner of Puerto Rico have been persistently lobbying for the approval of this law project, including various public hearings in Congress, arguing that the Commonwealth will incur in a default of its debt service requirements for the fiscal year 2015-16 citing that both the Governmental Development Bank of Puerto Rico and the Puerto Rico Treasury Department are suffering from severe cash flow shortfalls that put in jeopardy the fulfillment of their debt obligations. The continuing economic and fiscal crisis of the island will seriously affect the amount and quality of services provided to the citizenry and the amount of subsidies and funds provided by the state to the municipalities.

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis) (See Note 1)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
CASH RECEIPTS				
Intergovernmental	\$ 63,909,000	\$ 62,524,805	\$ 62,502,542	\$ (22,263)
Total cash receipts	<u>63,909,000</u>	<u>62,524,805</u>	<u>62,502,542</u>	<u>(22,263)</u>
CASH DISBURSEMENTS AND ENCUMBRANCES				
General government	<u>63,909,000</u>	<u>62,524,805</u>	<u>62,502,542</u>	<u>22,263</u>
Total cash disbursements and Encumbrances	<u>63,909,000</u>	<u>62,524,805</u>	<u>62,502,542</u>	<u>22,263</u>
Excess (deficiency) of cash receipts over (under) cash disbursements and encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Explanations of differences:				
Sources/outflows of resources:				
Actual cash disbursements and encumbrances (budgetary basis) from budgetary comparison schedule				\$ 62,502,542
Net change on encumbrances and non-budgeted disbursements				<u>1,027,045</u>
Total cash disbursements reported on the statement of cash receipts and cash disbursements - General Fund				<u>\$ 63,529,587</u>

See notes to Budgetary Comparison Schedule.

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Control

A budget is prepared for the General Fund and represents legislative appropriations for the general operation of the PRFD. The procedures followed for the approval and operations of the budget are defined by the laws of the Commonwealth of Puerto Rico. The PRFD submits to the Office of Management and Budget of the Commonwealth of Puerto Rico its budget request. Then the Governor submits the budget of the central government of the Commonwealth to the Legislative Council in the House of Representatives and Senate. The budget is legally adopted through an Act of the Legislative Council approved by the Governor. Formal budgetary information is employed as a management control device during the year for the general fund. Actual expenditures may not legally exceed budget appropriations for each of the classifications which are shown in the budgetary statement. In instance were budget revenues and appropriations have been revised during the year, budgets amounts presented in the financial statements represent final authorization amounts. Available appropriations and encumbrances lapse one year after end of the fiscal year. The budget is adopted in accordance with a budgetary basis of accounting which differs from USGAAP. The Commonwealth of Puerto Rico Department of Treasury and the Office of Management and Budget have the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the PRIFAS Accounting System. The PRFD should maintain its own accounting records, which should be periodically reconciled with PRIFAS Integrated Financial Accounting System.

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
CASH ASSISTANCE:		
<u>U.S Department of Agriculture / Direct Program</u>		
Cooperative Forestry Assistance	10.664	\$ 187,838
<u>U.S. Department of Homeland Security / Direct Program</u>		
Assistance to Firefighters Grant	97.044	<u>415,646</u>
		<u>\$ 603,484</u>

The accompanying notes are an integral part of this schedule.

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the **Puerto Rico Fire Department of the Commonwealth of Puerto Rico (the PRFD)** under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations. Because the Schedule presents only a selected portion of the operations of the **PRFD**, it is not intended to and does not purport to present the financial position, changes in net assets, or cash flows of the **PRFD**.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

- a. Expenditures reported on the Schedule are reported on the receipts and disbursements method of accounting. It is drawn primarily from the **PRFD's** internal accounting records, which are the basis for the **PRFD's** Statement of Receipts and Disbursements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for States, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b. Pass-through entities identifying numbers were not available.
- c. The titles of federal awards included in the Schedule are presented as described in the Catalog of Federal Domestic Assistance.

3. RELATIONSHIP TO THE STATEMENT

Expenditures included in the Schedule agree with the amounts included in the accompanying Statement of Receipts and Disbursements – Governmental Funds.



López-Vegu, CPA, PSC

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

**Chief Angel A. Crespo Ortiz
Commonwealth of Puerto Rico
Puerto Rico Fire Department
San Juan, Puerto Rico**

We have audited, 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 of America, the financial statements – cash basis of the governmental activities, each major fund, and the aggregated remaining fund information arising from cash transactions of the **Commonwealth of Puerto Rico Fire Department (the PRFD)**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **PRFD's** basic financial statements as listed in the table of contents, and have issued our report thereon dated March 18, 2016.

Internal Control Over Financial Reporting

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

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

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

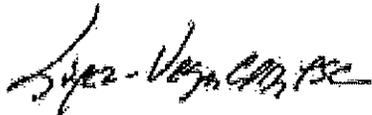
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PRFD'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 PRFD'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 PRFD's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico
March 18, 2016
Stamp No. 2728470 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.



López-Vega, CPA, PSC

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

**Chief Angel A. Crespo Ortiz
Commonwealth of Puerto Rico
Puerto Rico Fire Department
San Juan, Puerto Rico**

Report on Compliance for Each Major Federal Program

We have audited the **Commonwealth of Puerto Rico Fire Department (the PRFD)** compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have direct and material effect on each of the **PRFD's** major federal programs for the year ended June 30, 2015. The **PRFD's** major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the **PRFD'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 **PRFD'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 **PRFD's** compliance.

Opinion on Federal Grant Programs

In our opinion, the **PRFD** 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.

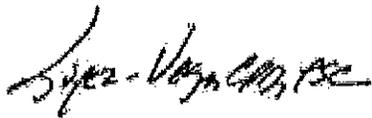
**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)**

Report on Internal Control over Compliance

Management of the PRFD 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 PRFD'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 the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PRFD'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.



LOPEZ-VEGA, CPA, PSC

San Juan, Puerto Rico

March 18, 2016

Stamp No. 2728471 of the Puerto Rico

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was affixed to the record copy of this report.



Section I - Summary of Auditors' Report

1. The auditors' report expresses an unmodified opinion on the financial statements of the **PRFD**.
2. No control deficiencies were disclosed during the audit of the financial statements.
3. No instance of noncompliance material to the financial statements of the **PRFD** was disclosed during the audit.
4. No significant deficiency in internal control over major federal award programs was disclosed during the audit.
5. The auditors' report on compliance for each of the major federal award programs for the **PRFD** expresses an unmodified opinion on its major federal programs.
6. There are no audit findings that require to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major include:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.664	Cooperative Forestry Assistance
97.044	Assistance Firefighters Grant

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The **PRFD** was determined to be a low-risk auditee.

Section II – Financial Statements Findings

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

Section III - Major Federal Award Program Findings and Questioned Costs

During our audit, we did not detect deficiencies, significant deficiencies, material weaknesses, or instances of noncompliance related to the general purpose financial statements that are required to be reported in accordance with OMB Circular A-133.

