OC-DA-123

mar. 17 (Rev.)
OC-17-19

Estado Libre Asociado de Puerto Rico
OFICINA DEL CONTRALOR
San Juan, Puerto Rico

Certificación de Cumplimiento con la *Ley 273-2003*, según enmendada; y de Notificación de Envío de Cartas de Recomendaciones (*Management Letters*), Informes de Auditoría, Estados Financieros Auditados y Otros[1]

Yo, Dennis Bechara Bravo (nombre del funcionario principal) Funcionario Principal de Comisión de los Puertos de Mayaguez (nombre de la entidad)

3138 (número de entidad) certifico a la Oficina del Contralor de Puerto Rico (Oficina) que relacionado con el año fiscal terminado al 30 de junio de 2016 :

1. Recibimos fondos públicos por $0 .
2. Efectuamos desembolsos de fondos federales por $0 . No aplica ☒.
3. Tenemos la obligación de cumplir con ☒ la *Ley 273-2003, Ley de Normas Contractuales sobre Independencia en las Auditorías Externas de Entidades Gubernamentales*[2], según enmendada, y con ☐ el *Single Audit Act*. En cumplimiento de estos:

   a. El 30 de septiembre de 2016 formalizamos el contrato número 2017-000003 para realizar la auditoría de los ☒ Estados Financieros y/o el ☐ *Single Audit Report*.

   b. El 2 de diciembre de 2016 recibimos el *Informe de Auditoria* del 30 de junio de 2016 de los auditores externos.

   c. El 8 de diciembre de 2016 los auditores externos comparecieron para presentar el informe final y comunicar los hallazgos y las recomendaciones.

[1] La entidad deberá remitir a esta Oficina, en formato **PDF** y no más tarde del 31 de mayo siguiente al año fiscal auditado, el *Formulario OC-DA-123* firmado por el funcionario principal, con los documentos que se especifican en el Apartado 3-e y f del mismo. Esto, a través de la aplicación *Certificaciones Anuales de la Oficina del Contralor*. La aplicación está disponible en la sección de Contraloría Digital en nuestra página en Internet: www.ocpr.gov.pr.

[2] En el Artículo 1 de la *Ley 273-2003* se establece que, para propósitos de dicha *Ley*, la frase "cualquier entidad de gobierno" incluye todos los organismos, con facultad de contratar, de las ramas Ejecutiva, Legislativa y Judicial tales como: departamentos, dependencias, municipios, corporaciones públicas y sus subsidiarias, afiliadas o cualesquiera entidades gubernamentales que tengan personalidad jurídica propia.

d. Relacionado con las cartas finales de recomendaciones (*Management Letters*):

☐ El ____ de N/A _____ de _____ recibimos las cartas finales de recomendaciones (*Management Letters*) emitidas por los auditores externos el ____ de _____ de _____. El archivo electrónico, en formato **PDF**, de las mismas fue remitido a su Oficina el ____ de _____ de _____.

☐ Los auditores externos no emitieron las cartas finales de recomendaciones (*Management Letters*).

e. Se incluye el archivo electrónico, en formato PDF, de los siguientes documentos e informes:

☐ Informes de auditorías emitidos en forma final

☒ Estados financieros auditados

☐ Informes de Control Interno sobre Cumplimiento y la Opinión sobre Cumplimiento

☐ *Single Audit Report*

☐ Copia del *Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*, y del recibo de envío al *Federal Audit Clearinghouse*.

☐ Otros (especifique): _____

f. Relacionado con el *Informe Especial Sobre el Cumplimiento de las Recomendaciones Contenidas en los Informes de Auditoría de la Oficina del Contralor de Puerto Rico y la Corrección de las Situaciones Comentadas en sus Informes Previos (Informe Especial)*:

☐ Se incluye el archivo electrónico, en formato **PDF**, del *Informe Especial* emitido por los auditores externos el ____ de _____ de _____.

☒ No aplica, ya que no tenemos recomendaciones pendientes de cumplimentar relacionadas con los informes publicados al 28 de febrero del año fiscal auditado.

4. ☐ No tenemos la obligación por ley, reglamento o acuerdo financiero, de contratar auditores externos para realizar la auditoría de los estados financieros del año fiscal terminado al ____ de _____ de _____.

En Mayaguez, Puerto Rico, hoy 28 de febrero de 2018.

Lennis Ruiz

Firma del Funcionario Principal

COMMONWEALTH OF PUERTO RICO
PORT COMMISSION OF MAYAGÜEZ

FINANCIAL STATEMENTS

FOR THE YEARS
ENDED JUNE 30, 2016 AND 2015

MAYAGUEZ PORT COMMISSION
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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CARLOS CARDONA
CERTIFIED PUBLIC ACCOUNTANT & CONSULTANT

Member of the Puerto Rico Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Mayagüez Port Commission
#80 PR 3341, Suite 104
Mayagüez, Puerto Rico 00680-5769

Report on the Financial Statements

I have audited the accompanying financial statements of Mayagüez Port Commission (an enterprise fund), which comprise the statement of net position as of June 30, 2016 and 2015, and the related statements of revenues and expenses, changes net position, and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free form material misstatement.

P. O. Box 1402 • Añasco, PR 00610
Ph. (787) 458-0209
ccardonacpa@gmail.com

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 judgment, including the assessment of the risks of material misstatement of the financial statement, 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 to design audit procedures that are appropriate in the circumstance, but not for the purposes of expressing opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mayagüez Port Commission as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirement

The Management's Discussion and Analysis is not a required part of the basic financial statements, but it's supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries to management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit this information and express no opinion on it.

CARLOS CARDONA
Puerto Rico
Lic. Núm. 3656
CONTADOR PUBLICO AUTORIZADO

Carlos Cardona, CPA

Añasco, Puerto Rico
December 7, 2016
License No. 3656; expiration date, December 1st, 2019

The stamp number **2717409** of the Puerto Rico Society of CPA was adhered to the original.

Overview of the Financial Statements

The Management Discussion and Analysis provides an overview of the Mayagüez Port Commission's (the Port Commission) financial activities for the Fiscal Years ended June 30, 2016 and June 30, 2015 and helps to focus the reader in the most significant financial issues and changes showed in the accompanying financial statements.

The Port Commission is a self-revenue public corporation that commenced business operations on August 24, 2004. A five-member Board of Commissioners, appointed by the Mayor of Mayagüez, manages the Port Commission. The Board of Commissioners is empowered with the authority to develop and manage the property and resources of the Port of Mayagüez to achieve the development and upgrading of the Port Commission's facilities and infrastructure. The Port of Mayagüez is viewed as an important governmental entity that would positively impact and encourage the economic development of an industrial zone surrounded the Port of Mayagüez. The Port Commission's capacity includes the power to acquire, sell, lease and barter the Port Commission's assets and facilities, and improve, build and develop the Port Commission's facilities.

Financial Highlights

The Statement of Net Position presents comparative information for the periods as of June 30, 2016 and June 30, 2015. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Governments are encouraged to present the statement of net position in a balance sheet similar format, but the statement of net position should report the residual amount between assets plus deferred outflows of resources less liabilities and deferred inflows of resources.

In order to support general public readers, following it is briefly defined the main elements of a statement of net position: (a) assets are those resources with a present service capacity that the government entity presently owns and controls; (b) liabilities are present obligations which reduce the government's resources with little or no discretion to avoid; (c) deferred outflow of resources represent a consumption of net assets to a future reporting period, with a positive effect on net position, similar to an assets; (d) deferred inflow of resources represent an acquisition of net assets that is applicable to a future reporting period, with a negative effect on net position, similar to a liability. Increases and decreases in net positions will serve as a useful indicator of the worth or unstable financial position of Port Commission as a government business corporative enterprise.

The Port Commission uses cash accounting basis on daily and current operations; however, the basic financial statements are converted to a full accrual accounting basis. All the current year's revenues and expenses are accounted for in the statements of revenues are presented for both

the Fiscal Years ended June 30, 2016 and June 30, 2015. All changes in net position are reflected as soon as the underlying event occurs, regardless of the timing of related cash flows. Revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The Statement of Cash Flows presents information about the cash receipts and cash disbursing of the Port Commission during fiscal year. Also, it shows the effect on financial position from the cash and non-cash operating and capital, among other financing transactions. When used with related disclosures and information in the other financial statements, the Statement of Cash Flows helps the readers to assess the Port Commission's ability to generate net cash flows, to comply obligations as due, and to obtain external financing, when needed. Also, it provides information about where cash come from, how cash is used for and the change in cash balance during the reporting period.

Statement of Net Position

A condensed comparison of the Commission's Statement of Net Position as of June 30, 2016 and 2015 is followed by a brief analysis of the data. The Notes to the Financial Statements provide additional information to supplement this Management's Discussion and Analysis.

	2016	2015	Change	% of Change
Assets:				
Current assets	$ 448,983	$ 449,732	$ (749)	(0.17)%
Non-current assets				
Capital assets, net	8,662,266	8,761,953	(99,687)	(1.14)%
Other Non-current assets	29,000	29,000	-	0.00%
Total Non- current assets	8,691,266	8,790,953	(99,687)	(1.13)%
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows	$ 9,140,249	$ 9,240,685	$(100,436)	(1.09)%
Liabilities:				
Current liabilities	$ 18,843	$ 21,540	$ (2,697)	(12.52)%
Total liabilities	18,843	21,540	(2,697)	(12.52)%
Deferred inflows of resources	-	-	-	-
Net Position:				
Net investment in capital assets	8,662,266	8,761,953	(99,687)	(1.14)%
Restricted	29,000	29,000	-	0.00%
Unrestricted	430,140	428,192	1,948	0.45%
Total net position	9,121,406	9,219,145	(97,739)	(1.06)%
Total liabilities, deferred inflows and net position	$ 9,140,249	$ 9,240,685	$(100,436)	(1.09)%

Analysis of Net Position at June 30, 2016 and 2015

Accordingly, to GASB No. 63 and 65, a Statement of Net Position (previously Statement of Net Assets) is provided, from which overall results include:

- The Commission's net position as of June 30, 2016 includes assets of $9,140,249, liabilities of $18,843 and a net position of $9,121,406.
- Current assets decreased by $749, because the consumption of resources used to finance the ordinary activities of the Port Commission and the accounts receivables were similar in amount.
- Current liabilities decreased by $2,697.
- Net capital assets decreased by $99,687, due to current depreciation of $103,016 and an addition of $3,329.

Net investment in capital assets of $8,662,266 have no debts associated. The $29,000 of restricted assets are Insurance proceeds received for property damages in the amount of $23,000 and $6,000 held to give incentives to cruise ships.

Statement of Revenues and Expenses

A condensed Statement of Revenues and Expenses is following discussed.

	2016	2015	Change	% of Change
Revenues:				
Operating revenues	$ 190,014	$ 120,371	$ 69,643	57.86%
Non-operating revenues	12,096	14,782	(2,686)	(18.17)%
Total revenues	202,110	135,153	66,957	49.54%
Expenses:				
Total expenses	299,849	338,342	(38,493)	(11.38)%
Change in net position	$ (97,739)	$ (203,189)	$ 105,450	(51.90)%

Analysis of Fiscal Years 2016 and 2015

The Total revenues increase by $66,957, representing a 49.54% from prior fiscal year. Expenses decreased by $38,493, representing a 11.38% of reduction from Prior Fiscal Year. Expenses exceeded revenues causing a negative change in net position of $97,739.

Significant Events During Fiscal Year 2016

- In collaboration with the Municipality of Mayagüez, the Port Commission pursued in its effort to request for federal funds, through the Office of the Resident Commissioner in Washington, to make a maintenance dredging of the Mayagüez Bay. Since the Port Commission's inception date, the Board of Commissioners has been submitting annual petitions to the Resident Commissioner in Washington lobbying for dredging funds to the Port of Mayagüez necessary to get authorized depth level of 32' in wharfs and basin channel. Even no positive results were obtained, the Port Commission pursued in its effort of requesting funds to the USA Congress.
- The Port Commission actively cooperated with the Municipality of Mayagüez in the administration and operation of the Port facilities by providing support and guidance to the Municipal's staff, as needed, and participating in meetings, forecasting revenue and expenses of the Port of Mayagüez, and providing information related to federal rules, tariff application, maritime operations, among others administrative and operational matters, as requested.
- The Port Commission continued with the trials at the PR Court System and US District Court against Holland Group Port (Mayagüez) Investment, Inc. (HGPI) to recover amounts payable to the Port Commission and to close such trials which are no longer effective due the termination of the long-term lease agreement for the Port of Mayagüez operation.
- The Port Commission, in association with the Municipality of Mayagüez, completed the process of evaluation and selection of one of two candidates who applied to a request for qualification process. This process was followed by a negotiation period conducted with Duty Free Americas, Inc, the candidate selected to establish the basis to furtherly letting the Port of Mayagüez into a contract for a private development and operation.
- The Port Commission, for the first time from its inception date in 2004, has been audited by the Office of the Comptroller of Puerto Rico; consequently, the administrative staff and legal counselor were providing the information and documentation required.

Revenue Highlights

The Port Commission establishes the norms, regulations and tariffs applicable to maritime operations and space rental applicable to the Port of Mayagüez business. The tariffs and regulations are stated in Handbook and Tariff No. 2 valid up through December 31, 2016. However, during Fiscal Year 2016, the Port Commission only had a ruling role while the

Municipality of Mayagüez had been operating the Port of Mayagüez. The Municipality of Mayagüez, as the Port Operator, administered and enforced the collection of tariff, fees and charges applicable to port's tenants, occupants and users of the port facilities.

The main source of revenue for Fiscal Year 2016 was obtained from the Cooperative Agreement between the Municipality of Mayagüez and the Port Commission, as following detailed.

• ***Rents & Maritime Port Operations,*** equivalent to 0.4% of total revenue.	$ 739
• ***Other Revenue,*** equivalent to 93.6% of total revenue.	189,275
• ***Non—operating Revenue,*** equivalent to 6.0% of total revenue	12,096
Total revenues	**$202,110**

Rent & Maritime Port Operations

Since the Port Commission is not operating the Port of Mayagüez, no maritime operation revenues were obtained during Fiscal Year 2016. Any revenue obtained during Fiscal Year 2016 from business port activities based on the Handbook and Tariff No. 2 was billed and collected by the Municipality of Mayagüez, as established in the Cooperative Agreement.

Miscellaneous revenue from rent and commission of expending machines was obtained in the amount of $739.

Other Operating Revenues

In accordance to the Cooperative Agreement signed in September 22, 2014 with the Municipality of Mayagüez to administer and operate the Port of Mayagüez, the Municipality of Mayagüez shall reimburse all expenses incurred by the Port Commission in lieu of rent. For the period ended June 30, 2016, the reimbursable Port Commission's expenses were $188,205. This revenue is classified as other operating revenue. In addition, the Port Commission recorded some miscellaneous revenues from interests earned on cash accounts and certificate of deposits in the amount of $1,070.

Non-operating revenue

Revenues reported in the foregoing condensed summaries as Revenues from Operations, as defined in Government Accounting Standards Board Statement No. 34 are presented as Other Sources Revenues for 2016 consisted of non-cash contributions of $12,096 provided by the Municipality of Mayagüez. Such non-cash contributions are based on the actual costs of the clerical support given to the Port Commission through the assignment of one employee on part-time basis to perform duties as the Secretary of the Board of Commissioners and handle general administrative matters.

Expense Highlights

Total operating expenses for the year ended June 30, 2016, excluding depreciation, are $196,833 showing a decrease on expenses of $(26,881) from Fiscal Year 2015. Total expenses are distributed and paid from combined financial resources, as follows: $12,096 (6.1%) represents non-cash contributions of services provided by the Municipality of Mayagüez and $184,737 (93.9%) are expenses incurred and paid from Port Commission's resources. Following are a summary of expenses, excluding depreciation expenses.

	2016	2015	Change
• ***Salaries and Benefits*** equivalent to 6.1% of total expenses.	$ 12,096	$14,462	$(2,366)
• ***Professional services*** equivalent to 63.1% of total expenses.	124,129	91,305	32,824
• ***Operating expenses*** related to travel, utilities, communication services, insurance, and supplies equivalent to 15.4%.	30,344	94,447	(64,103)
• ***Other expenses*** related to Commissioner's expenses, miscellaneous and equivalent to 15.4% of total expenses.	30,264	23,500	6,764
Total expenses, excluding of depreciation expenses.	**$196,833**	**$223,714**	**$(26,881)**

Salaries and benefits decreased in $2,366 from previous fiscal year because time allocation reduction of the services given to the Port Commission. The amount of $12,096 is the fair value for the services given by the employee performing duties as Secretary of the Board of Commissioners based on the application of time devoted over actual salary and fringe benefits.

Professional services increased in $32,824 from previous fiscal year. During Fiscal Year 2016, the following services were contracted to support the Board of Commissioners.

- Legal services were agreed to: (1) counsel the Port Commission in specific matters, as required; (2) represent the Port Commission in litigation matters and prosecute legal actions against HGPI through the PR Court System and the Federal Court; and (3) provide corporate work to the Board of Commissioners; and (4) negotiate the terms and conditions of a new long-term lease agreement for the development, administration and operation of the Port of Mayagüez.

- Management services were hired to support the Board of Commissioners in accomplishing administrative and fiscal matters.

- Security and safety advice services were agreed for: (1) executing periodically drills and exercises required to comply with Homeland Security Act regulations, (2) providing security training, as needed, and obtaining EPA water discharging permits.

- Financial audit services were agreed to comply with annual audit and financial statements preparation, as required by Law No. 10, as amended.

Operational expenses decreased in $64,103 from previous fiscal year. Once the Municipality of Mayagüez assumed the administration and operation of the Port of Mayagüez, the Port Commission no longer paid for the utilities, most of the insurances, and repair and maintenance expenses, among others.

Other expenses, increased in $6,764, because a raise in Commissioners' per diems and expenses. In most of the meetings, a perfect quorum was obtained and some extraordinary meetings were appointed.

Capital Assets

At June 30, 2016, the Port Commission's net assets reflected capital assets (e.g. land, buildings, and wharfs) consisted of 864 feet long of waterfront land with a berth comprised of six adjacent sites of 76,466.52 square meters equivalent to 19.4552 "cuerdas" and a natural harbor of 3.8 miles, ranging from 24' to 30' deep. The Port's facilities consist of waterfront steel deck, a steel frame storage building of 12,643 square feet, open piers for trade goods in transit, parking lots, and a Terminal Building for processing passengers.

General condition of the Terminal Building is fair. Commodities for passengers are limited to an average capacity for 300 passengers doing lines and sit-down. No major capital assets additions or improvements to the Terminal Building were done.

Plans for dredging are delayed because lack of funding. The Port Commission consistently had been requested appropriation to the US Corp. of Engineers, the Office of the PR Resident Commissioner in Washington and the Central Government of Puerto Rico with no positive results.

Port Security

The Port of Mayagüez is a US port of entry; thus, the presence of federal and commonwealth agencies is enforced. Some of the regulatory and law enforcement agencies working at the Port of Mayagüez are US Custom and Border Protection and US Coast Guard, the PR Police, Emergency Management Response (911), and Tax Revenue from the Department of Treasury.

No incidents related to port security happened during Fiscal Year 2016.

Request for Information

This report is designed to provide a general overview of the Port Commission's finances. The financial statements and related informative disclosures in the notes to the financial statements and required supplementary information are presented in accordance with the accounting and reporting standards known as "generally accepted accounting principles". Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mayagüez Port Commission
#80 PR 3341, Suite 102
Mayagüez, Puerto Rico 00680-5769

MAYAGÜEZ PORT COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2016 AND 2015

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 191,272	$ 352,205
Receivables, net of allowance for doubtful accounts of $384,403 for 2016 and 2015	239,683	79,499
Prepaid insurances	18,028	18,028
Total current assets	448,983	449,732
Non-current assets:		
Capital assets, net of accumulated depreciation	8,662,266	8,761,953
Certificates of Deposit-Restricted	29,000	29,000
Total non-current assets	8,691,266	8,790,953
Total Assets	9,140,249	9,240,685
Deferred Outflows of Resources	-	-
Total Assets and Deferred Outflows of Resources	$ 9,140,249	$ 9,240,685
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	$ 18,843	$ 21,540
Total Current Liabilities	18,843	21,540
Deferred Inflows of Resources	-	-
Net Position:		
Invested in capital assets, net of depreciation	8,662,266	8,761,953
Restricted	29,000	29,000
Unrestricted	430,140	428,192
Total Net Position	9,121,406	9,219,145
Total Liabilities, Deferred Inflows of Resources and Net Positions	$ 9,140,249	$ 9,240,685

The accompanying notes are an integral part of this statement.

MAYAGUEZ PORT COMMISSION
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Operating Revenues:		
Rent of facilities	$ 739	$ 2,074
Maritime Operations	-	9,898
Other revenue	189,275	108,399
Total operating revenues	190,014	120,371
Operating Expenses:		
Salaries and benefits	12,096	14,462
Professional services	124,129	91,305
Utilities and communication services	1,245	23,566
Insurances	28,000	66,356
Materials and supplies	594	832
Commissioner's per diems & stipends	29,100	22,100
Travels	505	507
Facilities & operation expenses	-	3,186
Miscellaneous	1,164	1,400
Total operating expenses	196,833	223,714
Operating Income(loss) before non-operating revenues (expenses)	(6,819)	(103,343)
Non-operating Revenues (Expenses)		
Depreciation Expense	(103,016)	(114,628)
Non-cash contribution	12,096	14,462
Insurance payment for Property damage	-	320
Total non-operating revenue (expenses)	(90,920)	(99,846)
Changes in net position	$ (97,739)	$ (203,189)

The accompanying notes are an integral part of this statement.

MAYAGUEZ PORT COMMISSION
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	Invested in Capital Assets	Restricted	Unrestricted	Total
Balance, June 30, 2014	$ 8,875,683	$ 29,000	$ 517,651	$ 9,422,334
Addition	898	-	(898)	-
Changes in net position	(114,628)	-	(88,561)	(203,189)
Balance, June 30, 2015	8,761,953	29,000	428,192	9,219,145
Addition	3,329	-	(3,329)	-
Changes in net position	(103,016)	-	5,277	(97,739)
Balance, June 30, 2016	$ 8,662,266	$ 29,000	$430,140	$ 9,119,406

The accompanying notes are an integral part of this statement.

MAYAGÜEZ PORT COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flow from Operating Activities:		
Changes in Net Position	$ (97,739)	$ (203,189)
Adjustments to reconcile changes in Net Assets to Net Cash used by Operating Activities:		
Depreciation expense	103,016	114,628
Decrease (increase) in Accounts Receivables	(160,184)	(78,547)
Decrease (increase) in Prepaid Insurance	-	4,752
(Decrease) Increase in Accounts Payable	(2,697)	(41,737)
Total adjustments	(59,865)	(904)
Net Cash provided (used) in Operating Activities	(157,604)	(204,093)
Cash Flows from Investing Activities:		
Addition of Capital Assets	(3,329)	(898)
Net Cash used by Investing Activities	(3,329)	(898)
Net (Decrease) Increase in Cash and Equivalents	(160,933))	(204,991)
Cash and Cash Equivalents, Beginning of the year	352,205	557,196
Cash and Cash Equivalents, End of the year	$ 191,272	$ 352,205
Summary for Cash and Cash Equivalents		
Operational Account	$ 172,395	$ 333,464
Petty Cash	500	500
Certificates of Deposits-Nonrestrictive	18,377	18,241
	$ 191,272	$ 352,205

The accompanying notes are an integral part of this statement.

NOTE 1 – REPORTING ENTITY

The Port Commission of Mayagüez is a public corporation created and governed by Act No. 10 of May 18, 1959, as amended, and implemented by Covenant AP 04-05(4)-033 on July 23, 2004 between the first party: the Governor of the Commonwealth of Puerto Rico and the Executive Director of the Puerto Rico Port Authority, and the second party: the Mayor of the Municipality of Mayagüez and the President of the Board of Commissioners of the Port Commission of Mayagüez. The Port Authority transferred land, buildings, equipment and property within the Port of Mayagüez, net of any related liability.

The Port Commission was created to own and operate marine port facilities in Mayagüez, Puerto Rico, as well as for managing and assuming their assets and liabilities of the Port Commission. Starting on August 23, 2004, the Port Commission initiated the administration and operations of the Port of Mayagüez, after the transferred of the facilities on July 23, 2004.

The Port Commission is governed by a five-member board, who were appointed by the City of Mayagüez Mayor. At the inception date of the Board of Commissioners, the Commissioners elective period was valid from 1 through 5 years; further, the Commissioners are appointed for a five years' term. The Board of Commissioners has all the powers and privileges under Act No. 10, as amended, but not limited to, to operate, construct and maintain wharves and piers; to buy additional facilities and to rent the port's facilities; to incur debt or issue bonds; and to establish tariff, fees and charges.

NOTE 2 – MANAGEMENT PLANS

A Cooperative Agreement between the Port Commission and the Municipality of Mayagüez in September 22, 2014 allows the administration and operation of the Port of Mayagüez by the Municipality of Mayagüez while a private investor interested in administer and develop the port facilities is identified. As part of this agreement, the Municipality of Mayagüez is providing human and financial resources to operate the Port of Mayagüez to keep it open and available to potential maritime business.

NOTE 2 – MANAGEMENT PLANS (CONTINUATION)

During May 2015, a request for qualification was initiated with the assistance of the Municipality of Mayagüez to select a qualified enterprise with the capital, capability and experience to achieve a reliable proposal for the development of the Port of Mayagüez. This development shall encompass improvement to the wharfs, piers and terminal, and the establishment of an added value port business center. Just before the end of the calendar year 2015, it was completed the evaluation of two candidates who participated of the qualification process. Only one proponent was qualified, and immediately in January 2016, the Port Commission appointed a Negotiation Committee integrated by the Port Commission's legal and administrative advisors and the Municipality of Mayagüez. This Negotiation Committee was authorized to conduct conversations with Duty Free Americas, Inc. to achieve and reach the terms and conditions to enter in of a long-term agreement for the development, administration and operation of the Port of Mayagüez.

During May 2016, a Letter of Intent was settled between both parties, intending to have completed a long-term agreement before the end of the calendar year. A 30 years long-term lease agreement was signed the 1st of November of 2016 with Puerto Mayagüez Development, Inc., a domestic corporation created for the whole and only purpose of developing the Port of Mayagüez fixed assets, administering and operating the port facilities, as well as to support the development of added value business. The vision for the development of Puerto Mayagüez Development, Inc. includes improvement to the piers, passenger Terminal, the addition of building space dedicated to new business activities and the marketing of the Port of Mayagüez as a new cruise destination in the Caribbean. Plans to create new ferry routes in the Caribbean are also envisioned.

NOTE 3 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For accounting purposes, the Port Commission is treated as an enterprise and its financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles as pronounced by the Governmental Accounting Standard Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

All activities of the Port Commission are accounted for within (1) a single proprietary (enterprise) fund, (2) a non-cash contribution fund and (3) a cash contribution fund.

NOTE 3 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

- Proprietary fund is used to account for operations that are (a) financed and operated in a manner like a private business enterprise. Port's operating revenues come from dock and wharf use and rent of the facilities. Operating expenses generally result from providing services, facilities related expenses, administrative expenses and depreciation on capital assets. Any revenue or expense not meeting this norm is reported as non-operating revenue or expense. The transactions of the Port Commission are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the statement of net position.

- Non-cash contribution (In-kind) fund is used to account for and recognize the actual value of the voluntary non-exchange transactions resulting from the Municipality of Mayagüez support to the Port Commission. Contribution is recorded as a revenue for the total value of the support received (salaries and payroll contributions, goods and services) as recognized as operating expenses.

- Cash contribution fund is used to account for a Government-mandated non-exchange transaction resulting from the incentive award given by the Municipality of Mayagüez to the Port's Commission to provide a $2,000 remuneration per voyage to cruise vessels.

New accounting policies

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities* provide a conceptual framework of inter-related objective and fundamental concepts that can be used as a basis for establishing financial reporting standards by providing guidance on either (a) classification of items that were previously reported as assets and liabilities but are now reported as deferred outflows and inflows, or (b) recognizing certain items that were previously reported as assets and liabilities but are now recognized as outflows of resources (expenses or expenditures) or inflows (revenues). Deferred outflows of resources represent the consumption on net assets applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net assets applicable to a future reporting period.

NOTE 3 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUATION)

Port Commission's financial statements changed its presentation to comply with GASB 63 and 65. There are not identified assets or liabilities to be reclassified as deferred outflows or inflows of resources, or any other important reclassification into the net position section that needs clarification.

Net assets is now referred as net position, which composition is: invested in capital assets, net of related debt; restricted and unrestricted components. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and debt issuance costs associated with long-term debt and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at end of year, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

- Restricted – This component of net assets consists of external constraints placed on net assets used by creditors (such as through debt covenants), grantors, contributors, commitments or laws or regulations of other governments or constraints imposed by law through constitutional provisions of enabling legislation.

- Unrestricted net assets – The component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

NOTE 4 – CASH AND CERTIFICATES OF DEPOSIT

The Port Commission maintains a government check and saving account at Banco Popular de Puerto Rico for the deposit and disbursing of the Port Commission revenues and expenses. A variable interest rate is paid over the saving portion in the account. As of June 30, 2016, Cash and cash equivalents are detailed as follows:

Operational Account Balance	$172,395
Petty Cash (Cash on hand)	500
Certificates of Deposits-non restrictive	18,377
Total	$191,272

NOTE 4 – CASH AND CERTIFICATES OF DEPOSITS (CONTINUATION)

At the end of the Fiscal Year ended June 30, 2016, the Port Commission kept short term certificates of deposit in total amount of $18,377, plus interest earned, in the Banco Popular de Puerto Rico. Concentration of risk of loss is attributed to have certificates of deposit and current account in a single bank. The FDIC guarantee up to $250,000.

NOTE 5 – RECEIVABLES

Receivables as of June 30, 2016 comprised of accrued invoices of $239,666 issued to the Municipality of Mayagüez, in accordance with the Cooperative Agreement for the Administration and Operation of the Port of Mayaguez signed between both entities, which provides for the full reimbursement of the Port Commission's expenses. These invoices include the Board of Commissioners' ordinary expenses incurred for accomplishing their duties and responsibilities, including communication expenses, per diems, allowances, and professional services, among others for the period of October 2014 through June 2016.

Allowance for doubtful accounts was recorded on previous years to off-set accounts receivable of $384,403 owed by HGPI related to unpaid balance for year and minimum rent fee. From the fifth to the tenth year of the long-term agreement signed with HGPI, the minimum year rent fee raised from $110,000 to $250,000. Unpaid balances for the periods May 1st, 2012 to April 30th, 2013 and May 1st, 2013 to April 30th, 2014 were $176,401 (including penalties) and $208,002, respectively. The long-term lease agreement with HGPI was terminated in May 19, 2014 as ordered by the First Instance Court of Mayagüez. This account receivable has been disputed in the PR First Instance Court and the United States Bankruptcy Court District of Puerto Rico; therefore, its collection is uncertain at this point.

NOTE 6 – PREPAID EXPENSES

A prepaid expense of $18,028 is recorded to recognize the share for Directors and Official Insurance applicable to Fiscal Year 2016-17. The insurance's term is valid from February 20, 2016 through February 19, 2017.

The Municipality of Mayaguez acquired the Director and Officers Insurance at a cost of $28,000, as well as property, marine and public responsibility insurances applicable to Fiscal Year 2016.

Even though the Director and Officers Insurance was acquired and paid by the Municipality of Mayagüez, the insurance cost is recorded as a Port Commission expense, similar as if this expense had been paid by the Port Commission and then reimbursed by the Municipality of Mayagüez, as agreed in the Cooperative Agreement.

NOTE 7 – OTHER ASSETS

The Municipality of Mayagüez issued Local Order No. 4, Series 2007-2008 to provide, to any cruise vessel docked the Port of Mayagüez, a money incentive of $2,000 per visit. The Local Order No. 4 requires the Port Commission to submit a full report to the Municipality of Mayagüez detailing total cruise incentives given during the current fiscal year ended and the amount in balance carry forward to future fiscal years. As of June 30, 2016, the Port Commission maintains a Cruise Incentive Fund balance for $6,000, which is set aside in a short-term Certificates of Deposit.

Also, the Port Commission maintains a certificate of deposit in the amount of $23,000 obtained from insurance proceeds to compensate damages to property at the Port of Mayaguez. The amount is withheld in a certificate of deposit for further repair of the property damaged.

NOTE 8 – CAPITAL ASSETS

The Port of Mayagüez facilities (land, buildings, wharfs) and most of the property in use are stated based on an appraisal done in year 2002, as part as of the procedures followed to transfer the port facilities from the PR Port Authority to the Port Commission. Capital improvement, furniture, machinery and equipment acquired since Fiscal Year 2004-05 is recorded based on its acquisition costs.

Capital assets are defined as assets with an acquisition cost of $500 or more and an estimated useful life of at least one year. Normal costs of repair and maintenance that do not add value to the assets or do not materially extend assets live are not capitalized. However, the costs of replacement, additions or improvements to assets which extend their useful live are generally capitalized, as well as any costs directly related to acquire or construct an asset is added to the original costs (example: interest, freight, shipping, fees, permits, among others).

NOTE 8 – CAPITAL ASSETS (CONTINUATION)

Depreciation is calculated using straight line method during the estimated useful lives, as applicable. The Port Commission capitalization policy establishes the classification for each type of assets and the useful live term assigned. Following is a summary for the calculation of depreciation based on the general classification for useful lives, as applied for the periods ended as of June 30, 2016 and June 30, 2015.

	Estimated Useful Life	2016 Value	2015 Value
Land		$ 6,900,000	$ 6,900,000
Land Improvements	10 – 30	812,980	812,980
Building Improvements	10 – 30	1,880,000	1,880,000
Wharf Improvements	15 – 40	473,000	473,000
Construction in progress		500,000	500,000
Furniture, machinery and equipment	3 – 10	21,891	18,562
Total		10,587,871	10,584,542
Less: accumulated depreciation		(1,925,605)	(1,822,589)
Total		$8,662,266	$8,761,953

The application of GASB 42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes that an asset is considered impaired when its service utility has significantly declined within the limits of its useful live. Management shall determine to withdraw the asset for property damaged, broken or obsoleted, or to decrease the value at the lower value for those Impaired capital assets which utility or functionality are not correlated to its book value. Annually, the Port Commission takes physical inventory to determined impairment loss, but no impairment adjustments were needed for current fiscal year.

Construction in progress consists of 16 bollards and 16 fenders for supporting weight of 150 ton vessels. The installation of bollards and fenders requires the restoration of the wharf's waterfront face, driving piles for bollards, and the renovation of the bulkhead foundation.

No capital contributions from federal, commonwealth or local funds were available during Fiscal Years ended June 30, 2016 and June 30, 2015 for the construction or acquisition of capital assets.

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable for the amount $18,843 consisted of goods and services acquired as of June 30, 2016 as follows: $18,691 in Professional Services, $132 in Telephone Services and $20 in Miscellaneous Expenses.

NOTE 10 – REVENUES

The statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues as following discussed.

Operating revenues

Port Commission operating revenues are those obtained from any type of business activity using the port facilities, resources and services. Act No. 10 of May 18, 1959, as amended, empowered the Port Commission to determine tariff, fees and charges for maritime related business and services, and to regulate rental fees. The Port Commission issued Tariff No. 2 which is valid until December 31, 2016.

Under the provisions of the Cooperative Agreement between the Port Commission and the Municipality of Mayagüez for the administration and operation of the Port of Mayagüez, revenues from maritime operations and business activity occurred in the Port of Mayagüez will belong to the Municipality of Mayagüez as the Port's Operator.

However, the Port Commission will obtain revenues from the Municipality of Mayagüez equivalent to the Port Commission's expenses and capital acquisition, as a form of compensation in lieu of a rental fee for the Port of Mayaguez. This Revenue, in the amount of $188,205 as of June 30, 2016, is recorded as Other Operating Revenue. Other miscellaneous revenue obtained from interest earned on cash accounts and certificate of deposits is also added as Other Operating Revenue.

Non-operating revenue

The Port Commission received non-cash contributions from the Municipality of Mayagüez. During Fiscal Year 2016, the Port Commission received non-cash contributions equal to the salaries and fringe benefits paid by the Municipality of Mayagüez to primarily provide human resources for management support to the Board of Commissioners in the amount of $12, 096. Non-cash contribution is calculated based on actual salaries and fringe benefits paid for services rendered accordingly to time allocated by the employee. Calculation was based in a 50% of the compensation for the period July 1st of 2015 until June 30th of 2016.

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Port Commission had no employees recruited during Fiscal Year 2016 neither is expected to recruit any employee in a near future. The Municipality of Mayagüez provided clerical support to the Board of Commissioners. The compensation and fringe benefits for the staff consigned to the Port Commission is the sole responsibility of the Municipality of Mayagüez as the legal employer.

The Port Commission has approved the Guidelines for Personnel which include regulations for recruitment, compensation and benefits applicable to Port Commission's employees. These guidelines, approved on November 17, 2006, encompass the methodology for recruitment, employee record-keeping, working hours, special benefits with and without pay such as Holidays, compensatory time, special licenses, retirement plans, health care benefits and wellness incentive plans for the accrual of sick and vacation leaves, among other matters. Also, the Port Commission has approved a Job Classification and Retribution Plan, but no has no immediate plans for recruiting employees.

As discussed in Note 2, since the Port of Mayagüez will be administering by a private operator, there is no need to have an administrative organization, especially when fiscal resources of the Port Commission are very limited and are not enough to afford budget needs for future periods.

NOTE 12- COMMITMENTS, LITIGATION AND CONTINGENCIES

Insurances

The Port Commission is required to hold insurances to cover risk on: (1) Director and Officers, (2) public responsibility, (3) property, and (4) maritime liability. All insurances are acquired by the Municipality of Mayagüez, including the Director and Officers insurance in favor of the Board of Commissioners, accordingly with the Cooperative Agreement for the Administration and Operation of the Port of Mayagüez.

The Municipality of Mayagüez provides worker's compensation insurance coverage to the Municipal's employee working for the Board of Commissioners and employees temporarily assigned to work in the administration and operation of the port facilities.

Litigations

Litigations and claims were still pending as of June 30, 2016. While the ultimate results cannot be predicted with certainty, management does not expect these matters to have a material adverse effect on the financial position of the Port Commission.

NOTE 12- COMMITMENTS, LITIGATION AND CONTINGENCIES (CONTINUATION)

Actual litigation between the Port Commission and HGPI includes:

(1) ISCI 2013-00800/KLAN201400825 Pending compliance with the order issued by the PR First Instance Court to HGPI for the payment of minimum rent fee applicable to April 30, 2013 and to produce all information regarding its assets and corporate records, among others. While a Port Commission's motion to show cause was under the trial court's consideration, on November 12, 2015, HGPI filed for voluntary Bankruptcy under Chapter 7. The filing of Bankruptcy stayed the proceedings in this case. An unfavorable outcome or risk of potential loss is unlikely.

(2) 15-08986 BKT Chapter 7. The Port Commission appeared as a creditor in the case of Bankruptcy under Chapter 7 filed by HGPI in the amount $5,548,526, including debts of rent owed to the Port Commission as well as expenses incurred in repair and maintenance, among others, at the time the port facilities were returned under the control of the Port Commission. On October 20, 2016, the Chapter 7 Trustee filed an Adversary Proceeding against HGPI's principal shareholder for the redemption of 800 shares of preferred stock, valued at $4,000,000, two years prior to the filing of Bankruptcy, causing HGPI became insolvent. The Trustee is asking the court to order the shareholder to return the $4,000,000 to HGPI Estate. The Port Commission is following this adversary proceeding closely.

Environment mitigation

The Port Commission has no pending environment situations or pollution issues that require a mitigation plan. GASB No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses accounting and financial reporting principles for providing remediation obligations to address current or potential detrimental effects of pollution.

The Port Commission does not maintain any reserve to cover contingency exposures. Port users (pilots, vessel owners or operators, and customers) are required to have insurance coverage endorsed to the Port Commission to manage any damage, including pollution or contamination. Also, insurances acquired by the Municipality of Mayagüez include environment pollution exposures.

The Port of Mayagüez complies with EPA environmental certifications, having approved the Certificate of Adequacy and the EPA Certificate of Water Discharging.

NOTE 13 - SUBSEQUENT EVENTS

The ASC 855 establishes the general standards for accounting and disclosure of events that took place after the date of the statements of activities, but before the date of emission of the financial statements. It establishes the period, after the date of the statement of activity during which the Commission management should evaluate events or transactions that could have happened and would be required to be registered or disclosed in the financial statements; the circumstances in which the association should recognize and disclose these events; and the kind of disclosure that should be offered for events that took place after the date of the statement of activity.

In accordance with the ASC 855 the Mayagüez Port Commission evaluated subsequent events until December 7, 2016, date in which the financial statements were almost ready to be issued and disclose the following:

- On the 1st of November of 2016, the Port Commission entered into a 30 years long-term agreement for leasing the port facilities for the private development, administration and operation of the Port of Mayagüez. This agreement was signed with Puerto Mayagüez Development, Inc., a domestic corporation, financially sponsored by Duty Free Americas, Inc.

- As established in the long-term agreement signed, a 90 day transition period started the 1st of November of 2016 in which the Port Commission and the Municipality of Mayagüez will support Puerto Mayagüez Development, Inc.

- Immediate plans include the improvements to the piers and wharfs, and the improvement and addition of the Passenger Terminal.

- Marketing efforts to have included the Port of Mayagüez as a port of call for some cruise lines doing business in the Caribbean will be done.

- Marketing efforts to have ferry routes between the Port of Mayagüez and ports in surrounding islands.