

**OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES  
ÁREA DE ASESORAMIENTO, REGLAMENTACIÓN E INTERVENCIÓN FISCAL  
ÁREA DE ARCHIVO DIGITAL**

**MUNICIPIO DE ADJUNTAS  
AUDITORÍA 2014-2015**

**30 DE JUNIO DE 2015**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SINGLE AUDIT REPORTING PACKAGE  
JUNE 30, 2015**

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**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SINGLE AUDIT REPORTING PACKAGE  
JUNE 30, 2015**

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**MUNICIPALITY OF ADJUNTAS**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**



# CARLOS R. DIAZ, CPA, PSC

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Municipal Legislative Body  
Municipality of Adjuntas  
Adjuntas, Puerto Rico

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Municipality of Adjuntas**, Puerto Rico as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the **Municipality of Adjuntas, Puerto Rico's** basic financial statements as listed in the table of contents. We did not audit the financial statements of Valle Verde Project, which represent 100 percent of the assets, fund balance and revenue of the business type activities 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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Valle Verde Project. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Valle Verde Project, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED):

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 opinions.

### Summary of opinions:

### Type of opinion:

|                           |             |
|---------------------------|-------------|
| Governmental activities   | Qualified   |
| Business type activities  | Unqualified |
| Each mayor funds          | Unqualified |
| Aggregate remaining funds | Unqualified |

### **Basis for Qualified Opinion on Governmental Activities**

Management has not recorded the proportional share in the net pension plan liability of the employee retirement system (ERS) and related disclosures. Accounting principles generally accepted in the United States of America require that the liability representing the Municipality proportion share in the ERS should be presented in the governmental-wide financial statements. In addition, other information of the ERS should be disclosed. The amount by which this departure would affect the liabilities, fund balance and expenses of the governmental-wide financial statements has not been determined.

### **Qualified opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the **Municipality of Adjuntas, Puerto Rico**, as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified opinions**

In our opinion, based on our audit and the report of other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the **Municipality of Adjuntas, Puerto Rico** as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED):

### 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 5 to 17 and 51 to 52 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 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.

Management has omitted information related to the Municipality proportionate share of net pension plan liability of the employer retirement systems information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Municipality of Adjuntas, Puerto Rico's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

**INDEPENDENT AUDITOR'S REPORT (CONTINUED):**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the **Municipality of Adjuntas** internal control over financial reporting and on 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 **Municipality of Adjuntas** internal control over financial reporting and compliance.

March 15, 2016  
Aguas Buenas, Puerto Rico



Carlos R. Díaz, CPA, PSC  
License No. 275  
Expire December 1, 2018

The stamp No. **E199129** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

The discussion and analysis of the Municipality of Adjuntas (Municipality) financial performance provides an overview of the Municipality's financial activities for the year ended June 30, 2015. This MD&A is designed to focus on the current year activities, resulting changes and currently known facts, we encourage readers to consider the information presented in this MD&A in conjunction with the financial statements, which begin on page **18**.

**FINANCIAL HIGHLIGHTS**

- The Municipality has reported assets amounting to \$42.27 million in the accompanying statement of net position, of which most significant are capital assets and cash and cash equivalents amounting to \$28.84 million and \$11.60 million respectively.
- Also, the Statement of Net Position for the Governmental Activities of the Municipality shows a net investment in capital assets of \$24.44 million.
- The Municipality has reported liabilities amounting to \$20.98 million in the accompanying statement of Net position, of which \$18.12 is long term debt.
- During fiscal year ended June 30, 2015 the Municipality Net Position decrease by \$1.41 million.
- During the year, the Municipality reported revenues of \$9.07 million in the General Fund of total revenues restricted and unrestricted of \$12.32 million.
- The Municipality has reported total expenses amounting to \$13.70 million in the accompanying statement of activities.
- The total fund balances of governmental funds amounted to \$10.47 million at June 30, 2015, which decrease by \$1.81 million (revenues and other financing sources under expenditures and other financing uses) during fiscal year ended June 30, 2014.
- The total assets of governmental funds decrease from \$19.60 million at June 30, 2014 to \$16.39 million at June 30, 2015, for a decrease of \$3.21(16.37 percent).
- The governmental fund's total liabilities decrease from \$5.69 at June 30, 2014 to \$4.86 at June 30, 2015 for a decrease of \$0.83 (14.58 percent).
- Total revenues of governmental funds decrease from \$14.43 million for the fiscal year ended June 30, 2014 to \$12.32 million for the fiscal year ended June 30, 2015 for a decrease of \$2.11(14.62 percent).
- The governmental fund's total expenditures increase from \$12.14 million for the fiscal year ended June 30, 2014 to \$14.13 million for the fiscal year ended June 30, 2015 for an increase of \$1.99 (16.39 percent).

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

- Other financing sources (uses), net, of governmental funds increased from \$2.64 million for the fiscal year ended June 30, 2014 to \$2.94 million for the fiscal year ended June 30, 2015.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on page 18 through 20) provide information about the activities of the Municipality as a whole and present a long-term view of the Municipality's finances. Fund financial statements start on page 2. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Municipalities' operations in more detail than the government-wide statements by providing information about the Municipality's most significant funds.

**Overview of the Basic Financial Statements**

The Municipality's financial statements include three components:

1. the government-wide financial statements
2. the fund financial statements
3. notes of the financial statements

These components are described below:

**Government-wide financial statement:** The Government-Wide Financial Statements are designed to provide to readers with a broad overview of the Municipality's operations and finance as a whole in a manner similar to private-sector business. These statements provide short-term and long-term information about the Municipality's financial position, which assist the Municipality's management to determine the economic condition at the end of the fiscal year. These financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means that these financial statements follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year ended June 30, 2015 even if cash involved have not been received or paid. The Government-Wide Financial Statements include: (1) the Statements of Net Position and (2) the Statement of Activities.

**The Statement of Net Position and the Statement of Activities**

The Statement of Net Position and the Statement of Activities report information about the Municipality as a whole and about its activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

**The Statement of Net Position and the Statement of Activities (Continued)**

These two statements report the Municipality's *net assets* and changes in them. You can think of the Municipality's net assets, the difference between assets and liabilities, as one way to measure the Municipality's financial health, or *financial position*. Over time, *increases or decreases* in the Municipality's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Municipality's property tax base and the condition of the roads, to assess the *overall health* of the Municipality of Adjuntas.

In the Statement of Net Position and the Statement of Activities, we divide the Municipality into:

Governmental activities – Most of the Municipality's basic services are reported here, including the municipal police, public works, garbage disposal, public energy and health services, and general administration. Property taxes, municipal license tax, state and federal grants finance most of these activities.

Business – type activities – Reports the project Valle Verde project which is engaged to provide rent through Section 8 funds.

**Fund Financial Statement:** Report the financial position and results of operations of the Municipality's governmental funds.

The Fund Financial statement components are:

- Balance Sheet-government funds
- Statements of Revenues, Expenditures and Changes in Fund Balance.

The Fund financial statements provide detailed information about the most significant funds, not the Municipality as a whole. Some funds are required to be established by bond covenants.

A fund is a grouping of related accounts that is used to maintain control over resources they have been segregated for specific activities or objectives. The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Municipality's basic services are reported in the governmental funds, that uses an accounting approach which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund

Statements provide a detailed *short-term view* of the Municipality's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs.

**Notes to the Basic Financial Statement:** The notes provide additional information that is essential to a full understanding of the data provided in government-wide and the fund financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**THE MUNICIPALITY AS A WHOLE**

**Financial Analysis of Government-Wide Financial Statements**

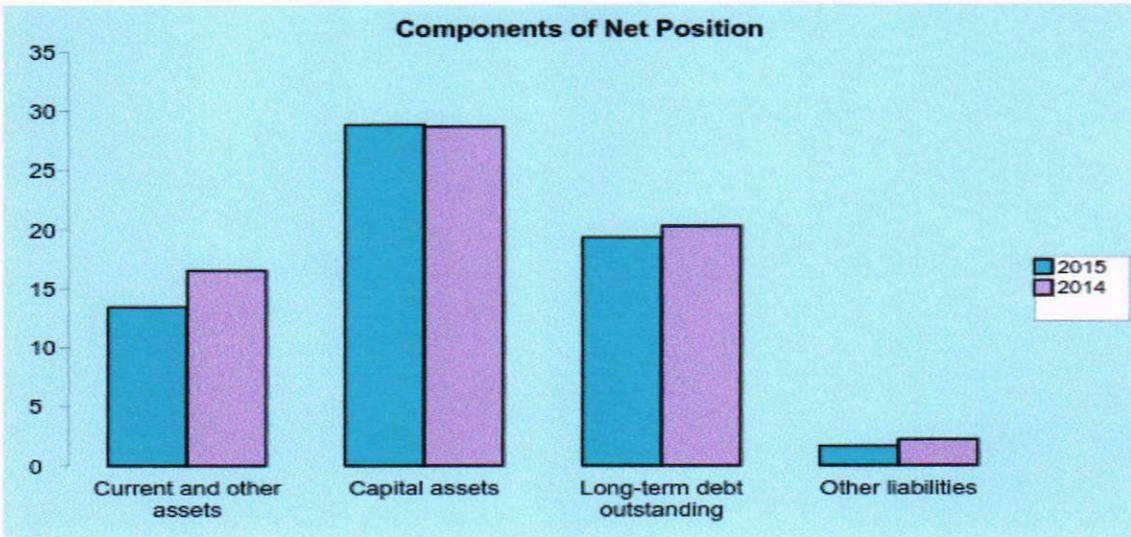
The Municipality's overall financial position and operations for the last two years are summarized as follows, based on the information included in the accompanying Governmental-Gide Financial Statements.

The Municipality's combined net position decreased in the current year by \$ 1.62 million, to total \$21.15 million at end of year. Table 1 and 2, focus on the net assets and changes in net position of the Municipality's governmental and business-type activities for the current year.

**Table 1  
NET POSITION  
(in Million)**

|  | <u>2015</u>    | <u>2014</u>     |
|--|----------------|-----------------|
| Current and other assets                           | \$13.44        | \$16.56         |
| Capital assets                                     | <u>28.84</u>   | <u>28.67</u>    |
| Total assets                                       | <u>42.28</u>   | <u>45.23</u>    |
| Long-term debt outstanding                         | (19.34)        | (20.27)         |
| other liabilities                                  | (\$1.64)       | (\$2.19)        |
| Total liabilities                                  | <u>(20.98)</u> | <u>(22.46)</u>  |
| Net assets:  |                |                 |
| Invested in capital assets,<br>net of related debt | 24.44          | 25.41           |
| Restricted for:                                    | 2.28           | 1.85            |
| Debt services                                      |                |                 |
| Capital project                                    | 3.20           | 5.82            |
| Other specified purpose                            | 2.93           | 1.07            |
| Unrestricted                                       | <u>(11.70)</u> | <u>(11.60)</u>  |
| Net Assets   | <u>\$21.15</u> | <u>\$ 22.77</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
As Of JUNE 30, 2015**



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**Table 2  
CHANGES IN NET POSITION  
(in Million)**

| <b>Revenues</b>                            | <b><u>2015</u></b>    | <b><u>2014</u></b>   |
|--|-----------------------|----------------------|
| <b>Program revenues:</b>                   |                       |                      |
| Charges for services                       | \$0.53                | \$0.48               |
| Operating grants and contributions         | 1.15                  | 2.03                 |
| Capital grants and contributions           | 0.70                  | 2.05                 |
| <b>General revenues:</b>                   |                       |                      |
| Property taxes                             | 0.52                  | 1.74                 |
| Municipal License tax                      | 0.34                  | 2.05                 |
| Gants and entitlements                     | 6.53                  | 7.84                 |
| Other income                               | <u>0.88</u>           | <u>0.34</u>          |
| <b>Total Revenues</b>                      | <b><u>10.65</u></b>   | <b><u>16.53</u></b>  |
| <b>Program Expenses:</b>                   |                       |                      |
| General Administration                     | \$5.78                | \$4.76               |
| Public safety                              | 0.47                  | 0.55                 |
| Culture, Tourism, Recreation and Education | 0.83                  | 1.85                 |
| Public works                               | 2.62                  | 2.57                 |
| Health and welfare                         | 3.27                  | .35                  |
| Housing                                    | 0.49                  | .42                  |
| Other                                      | <u>.73</u>            | <u>.75</u>           |
| <b>Total Expenses:</b>                     | <b><u>14.19</u></b>   | <b><u>11.25</u></b>  |
| <b>Increase in Net Assets</b>              | <b><u>-\$3.54</u></b> | <b><u>\$5.28</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**Financial Analysis of Government-Wide Financial Statements (Continue)**

Net assets decreased by \$3.54 million in the Municipality's governmental activities. *Unrestricted* net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

**Financial analysis of the Municipality's Governmental Funds**

The Municipality uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Municipality's governmental fund is to provide information on near-term inflow, outflow, and balance of spend able resources. Such information is useful in assessing the Municipality's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of fiscal year.

**Governmental Activities**

The principal revenues of the Municipality are composed of property taxes and grant contributions. The Mayor of the Municipality of Adjuntas continued with an aggressive collections procedure especially in the property taxes area and submitted state and federal proposals to get competitive grant awards. Also, the Mayor of the Municipality implemented an adequate budget control and record keeping, which benefits the Municipality in its management decisions and operations.

Expenses during the fiscal year ended June 30, 2015 was substantially related to the following:

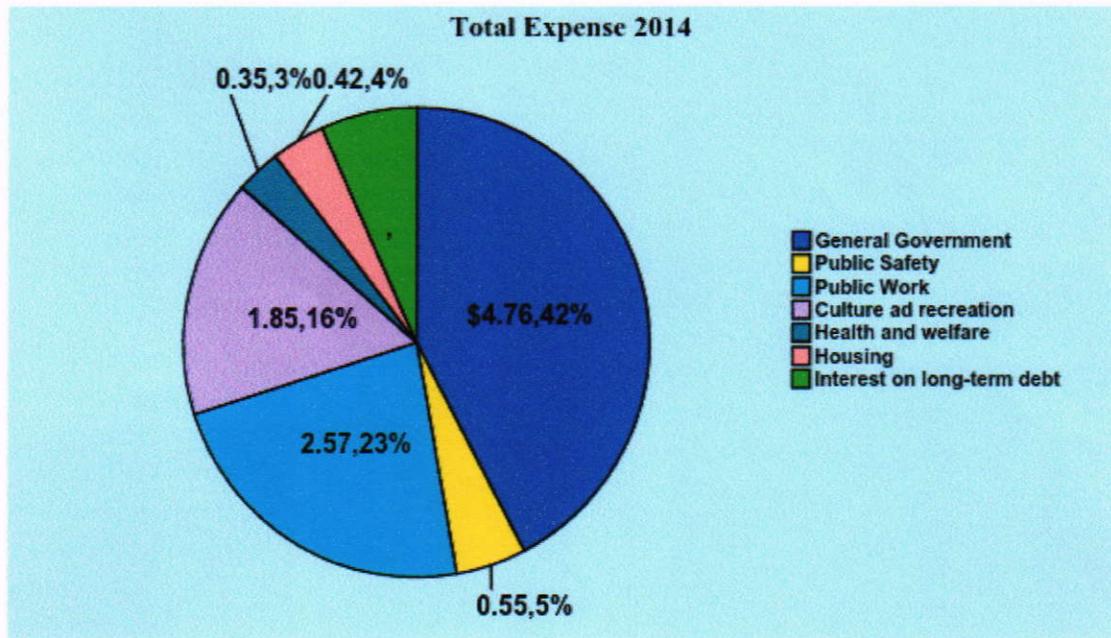
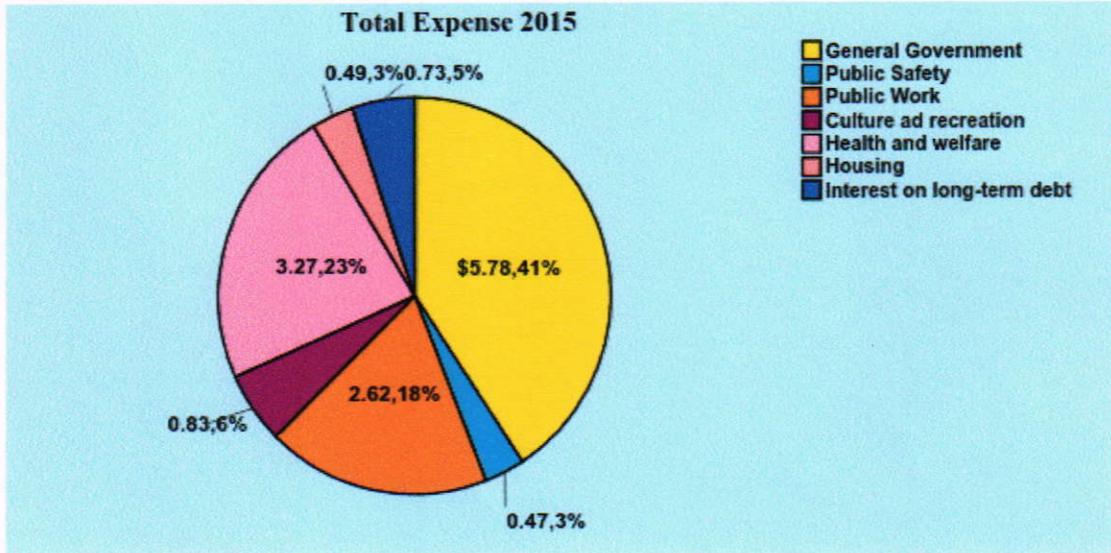
**Table 3**

**Governmental Activities**  
**(in Million)**

|                                   | Total expenses |                |
|-----------------------------------|----------------|----------------|
|                                   | <u>2015</u>    | <u>2014</u>    |
| General Government                | \$5.78         | \$4.76         |
| Public Safety                     | 0.47           | 0.55           |
| Public Work                       | 2.62           | 2.57           |
| Culture, recreation and education | 0.83           | 1.85           |
| Health and welfare                | 3.27           | .35            |
| Housing                           | .49            | .42            |
| Interest on long term debt        | <u>.73</u>     | <u>.75</u>     |
| Totals                            | <u>\$14.19</u> | <u>\$11.25</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**Governmental Activities (Continued)**



The cost of all governmental activities this year was \$14.19 million compared to \$11.25 million last year. Table 2 presents the cost of each of the Municipality of Adjuntas largest programs.

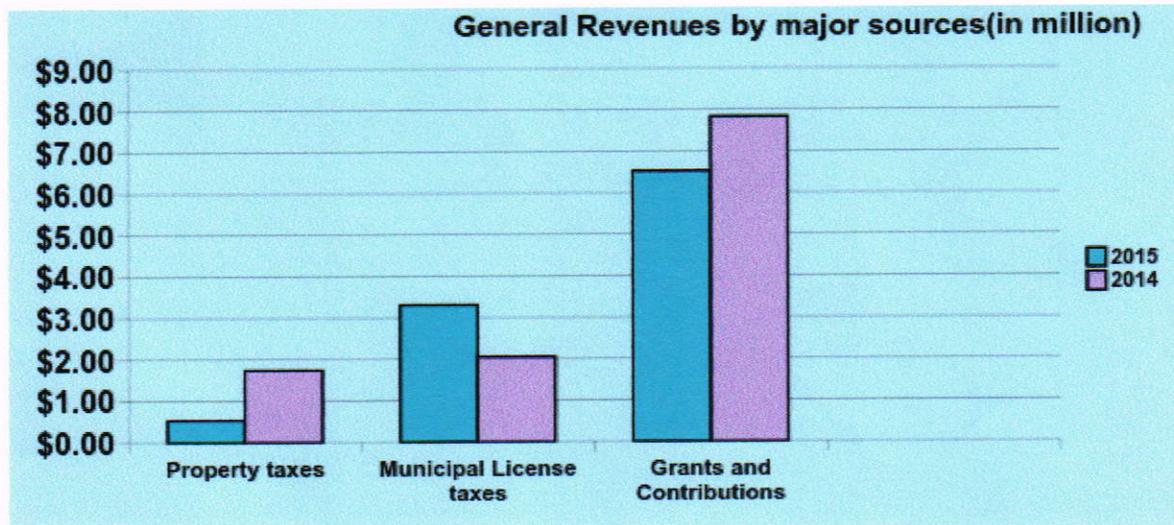
The major sources of general revenue are property taxes, municipal sales taxes, and grant and contributions not restricted, which in total represent \$10.40 and \$11.67 of all revenues in 2015 and 2014, respectively.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**Governmental Activities (Continued)**

**Table 4  
Governmental Activities  
(in Million)**

|                          | <b>General Revenues<br/>By major sources</b> |                |
|--------------------------|--|----------------|
|                          | <u>2015</u>                                  | <u>2014</u>    |
| Property taxes           | \$0.53                                       | \$1.74         |
| Municipal License taxes  | 3.30   | 2.05           |
| Grants and contributions | <u>6.52</u>                                  | <u>7.84</u>    |
| Totals                   | <u>\$10.35</u>                               | <u>\$11.63</u> |

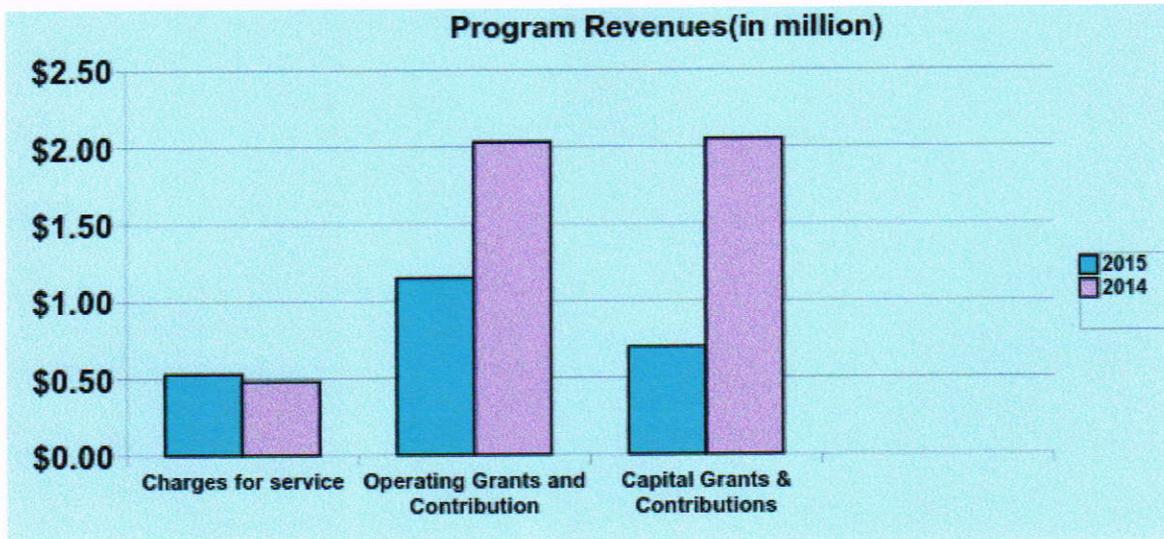


**Table 5  
Governmental Activities  
(in Million)**

|                                      | <b>Program Revenues<br/>by major sources</b> |                |
|--------------------------------------|--|----------------|
|                                      | <u>2015</u>                                  | <u>2014</u>    |
| Charges for service                  | \$0.53                                       | \$0.48         |
| Operating Grants<br>and Contribution | 1.15   | 2.03           |
| Capital Grants and Contributions     | <u>0.70</u>                                  | <u>2.05</u>    |
| Totals                               | <u>\$ 2.38</u>                               | <u>\$ 4.56</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**Governmental Activities (Continued)**



**THE MUNICIPALITY'S FUND**

As the Municipality completed the year, its governmental funds reported a combined fund balance of \$10.47 million.

**General Fund Budgetary Highlights**

Once the Municipality's budget for the fiscal year 2014-2015 was approved on June 2014, the financial decisions were taken based on the available appropriations. However, during the course of the year, the Municipal Legislative Body revised the Municipality of Adjuntas' budget to adjust the original projections to the actual needs of the citizenship. The budget amendments fall into various categories. The first category includes transfers between expenditure accounts and the second one includes revisions to the amount of budget originally approved.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2015, the Municipality of Adjuntas had \$24.75 million invested in a broad range of capital assets, including buildings, parks, roads, bridges and equipment.

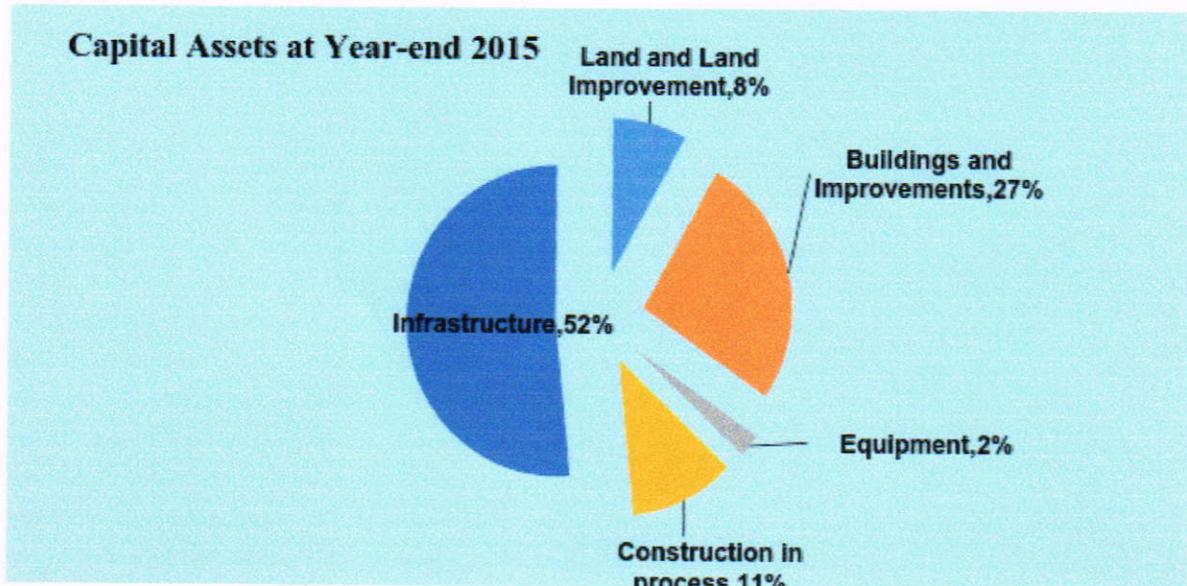
**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**Capital Assets (Continued)**

**Table 6  
Capital Assets at Year-End  
(Net of depreciation, in Millions)**

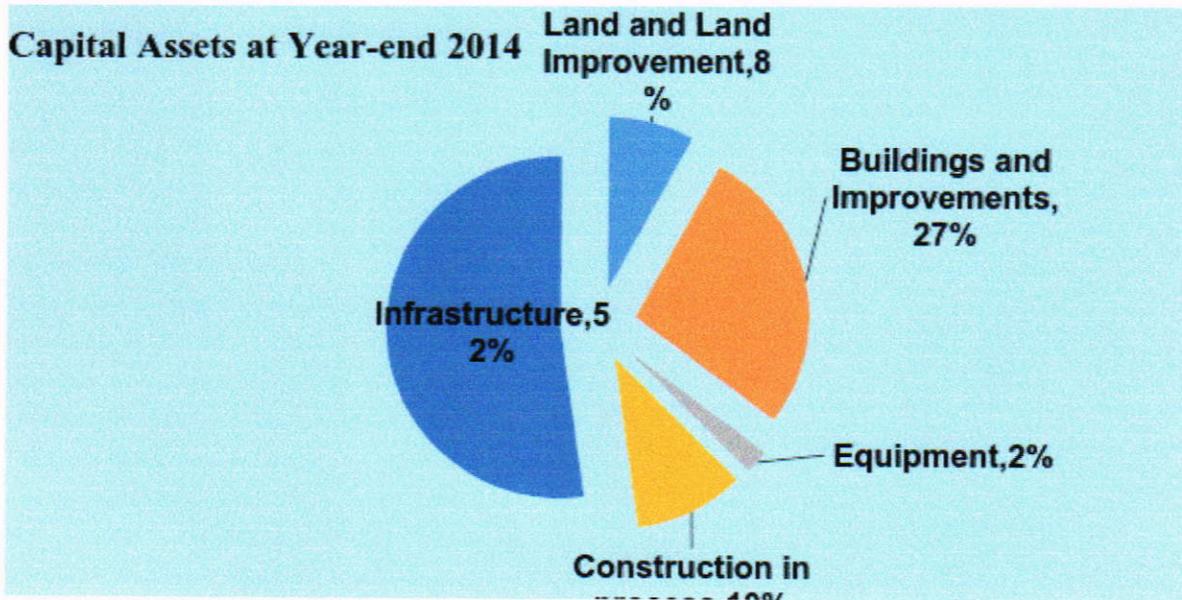
Governmental Activities

|                            | <u>2015</u>           | <u>2014</u>           |
|----------------------------|-----------------------|-----------------------|
| Land and land improvements | \$1.98                | \$1.98                |
| Buildings and improvements | 6.63                  | 6.80                  |
| Construction in process    | 2.80                  | 2.54                  |
| Infrastructure             | 12.73                 | 13.03                 |
| Equipment                  | <u>0.60</u>           | <u>0.57</u>           |
| <b>Totals</b>              | <b><u>\$24.75</u></b> | <b><u>\$24.92</u></b> |



COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015

Capital Assets (Continued)



More detailed information about the Municipality's capital assets is presented in Note 8 to the financial statements.

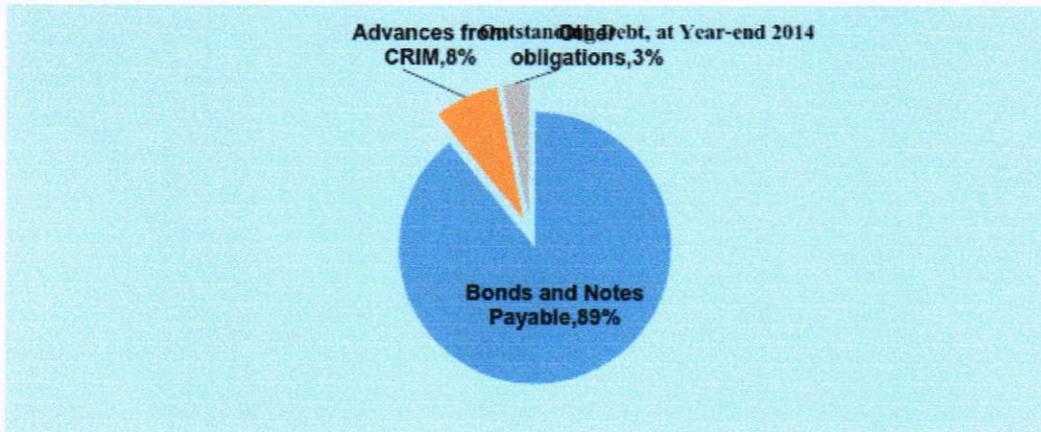
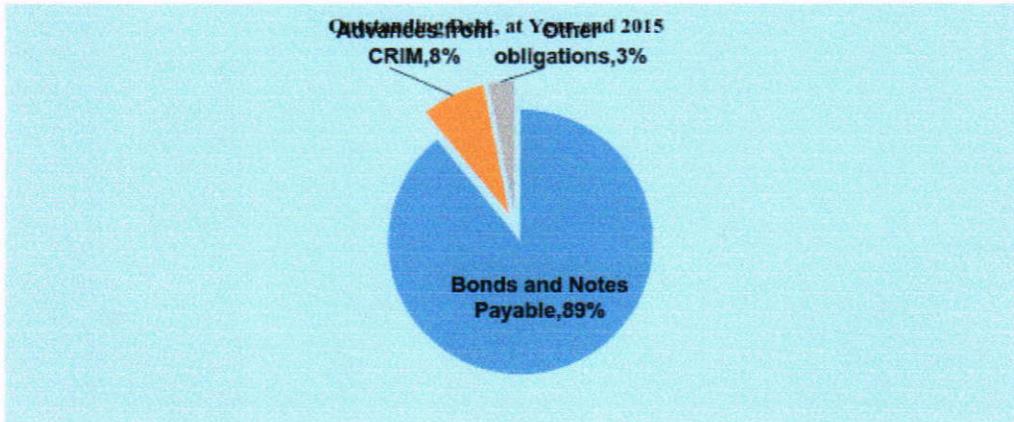
**Debt**

At year-end, the Municipality of Adjuntas had \$19.34 million, in bonds, notes and other outstanding debts as shown in Table 7.

**Table 7**  
**Outstanding Debt, at Year-End**  
**(in Thousands)**

|                         | <b>Governmental Activities</b> |                |
|-------------------------|--------------------------------|----------------|
|                         | <u>2015</u>                    | <u>2014</u>    |
| Bonds and Notes payable | \$16.85                        | \$17.38        |
| Advances from CRIM      | 1.47                           | 1.52           |
| Other obligations       | <u>.60</u>                     | <u>.62</u>     |
| Totals                  | <u>\$18.92</u>                 | <u>\$19.52</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**



The Municipality is required to limit the amount of general obligation debt to 10% of the total assessment of property located within the Municipality, for bonds to be repaid with the proceeds of property taxes restricted for debt services. Other obligations include accrued vacation and sick leave; and claims and judgments. More detailed information about the Municipality's long-term liabilities is presented in Note 9 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Municipality's elected and appointed officials considered many factors when setting the fiscal year 2015 budget. The most significant change in the next year's budget in comparison with the amounts included for the year ended June 30, 2014, is the increase in the estimated of municipal license and construction taxes. For these two revenue accounts the Municipality considered the taxes to be collected for the construction of various major projects as a part of the new administration governmental program. Budgeted expenditures are expected to rise accordingly to the increase in budgeted revenues. If these estimates are realized, the Municipality's budgetary General Fund balance is expected to increase modestly by the close of 2015.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2015**

**CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Municipality's finances and to show the accountability for the money it receives. If you have questions about this report or need additional financial information, contact us at the Municipality of Adjuntas, PO Box 1009, Adjuntas, Puerto Rico 00601.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

| ASSETS   | <b>PRIMARY GOVERNMENT</b>          |                                      |                      |
|--|------------------------------------|--------------------------------------|----------------------|
|  | <b>GOVERNMENTAL<br/>ACTIVITIES</b> | <b>BUSINESS -TYPE<br/>ACTIVITIES</b> | <b>TOTAL</b>         |
| Cash and cash equivalents  | \$ 8,122,612                       | \$ 216,418                           | \$ 8,339,030         |
| Cash with fiscal agent   | 3,006,051                          |                                      | 3,006,051            |
| Accounts receivable:   |                                    |                                      |                      |
| Other governmental entities  | 478,102                            | 75,373                               | 553,475              |
| Property taxes   | 1,074,075                          |                                      | 1,074,075            |
| Sales and usage tax  | 191,592                            |                                      | 191,592              |
| Other receivable   |                                    | 15,782                               | 15,782               |
| Capital assets, net  | 24,748,663                         | 4,086,340                            | 28,835,003           |
| Restricted cash  | <u>                    </u>        | <u>256,725</u>                       | <u>256,725</u>       |
| <b>Total assets</b>  | <u>37,621,095</u>                  | <u>4,650,638</u>                     | <u>42,271,733</u>    |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> |                                    |                                      |                      |
| <b>Liabilities:</b>  |                                    |                                      |                      |
| Accounts payable and accrued expenses                              | 1,213,753                          | 147,971                              | 1,361,724            |
| Due to other governmental entities                                 | 123,622                            |                                      | 123,622              |
| Advances from federal agencies                                     | 157,581                            |                                      | 157,581              |
| Long-term debt:  |                                    |                                      |                      |
| Due within one year  | 1,030,382                          | 191,185                              | 1,221,567            |
| Due in more than one year  | <u>17,893,536</u>                  | <u>221,722</u>                       | <u>18,115,258</u>    |
| <b>Total liabilities</b>   | <u>20,418,874</u>                  | <u>560,878</u>                       | <u>20,979,752</u>    |
| <b>Deferred inflows of resources</b>                               |                                    |                                      |                      |
| Deferred municipal tax   | <u>143,683</u>                     | <u>                    </u>          | <u>143,683</u>       |
| <b>Net position:</b>   |                                    |                                      |                      |
| Net Investment in capital assets                                   | 20,765,025                         | 3,673,433                            | 24,438,458           |
| Restricted for:  |                                    |                                      |                      |
| Debt service   | 1,867,640                          | 416,327                              | 2,283,967            |
| Capital projects   | 3,200,296                          |                                      | 3,200,296            |
| Other purpose  | 2,926,560                          |                                      | 2,926,560            |
| Unrestricted   | <u>(11,700,983)</u>                | <u>                    </u>          | <u>(11,700,983)</u>  |
| <b>Total net position</b>  | <u>\$ 17,058,538</u>               | <u>\$4,089,760</u>                   | <u>\$ 21,148,298</u> |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

| <u>FUNCTIONS AND PROGRAMS</u>                 | <u>EXPENSES</u>              | <u>PROGRAM REVENUES</u>        |   |   | <u>NET<br/>(EXPENSE)/<br/>REVENUE</u> |
|---|------------------------------|--------------------------------|---|---|---------------------------------------|
|   |                              | <u>CHARGE FOR<br/>SERVICES</u> | <u>OPERATING<br/>GRANTS AND<br/>CONTRIBUTIONS</u> | <u>CAPITAL<br/>GRANTS AND<br/>CONTRIBUTIONS</u> |                                       |
| Governmental activities:                      |                              |                                |   |   |                                       |
| General administration                        | \$ (5,776,813)               |                                | \$ 22,917   |   | \$ (5,753,896)                        |
| Public safety                                 | (473,297)                    |                                | 45  |   | (473,252)                             |
| Culture, education, tourism<br>and recreation | (831,590)                    | \$ 13,864                      |   |   | (817,726)                             |
| Public works                                  | (2,624,041)                  |                                |   | \$703,444                                       | (1,920,597)                           |
| Health, sanitation and welfare                | (3,267,871)                  |                                | 1,128,440   |   | (2,139,431)                           |
| Interest                                      | <u>(729,328)</u>             | <u>                    </u>    | <u>                    </u>                       | <u>                    </u>                     | <u>(729,328)</u>                      |
| Total governmental activities                 | <u>(13,702,940)</u>          | <u>13,864</u>                  | <u>1,151,402</u>                                  | <u>703,444</u>                                  | <u>(11,834,230)</u>                   |
| Business type-activities:                     |                              |                                |   |   |                                       |
| Housing                                       | (484,970)                    | 513,304                        |   |   | 28,334                                |
| Interest                                      | <u>(648)</u>                 | <u>                    </u>    | <u>                    </u>                       | <u>                    </u>                     | <u>(648)</u>                          |
| Total business - type activities              | <u>(485,618)</u>             | <u>513,304</u>                 | <u>                    </u>                       | <u>                    </u>                     | <u>27,686</u>                         |
| Total   | <u><u>\$(14,188,558)</u></u> | <u><u>\$527,168</u></u>        | <u><u>\$1,151,402</u></u>                         | <u><u>\$703,444</u></u>                         | <u><u>\$(11,806,544)</u></u>          |

(Continue)

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF ACTIVITIES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

|                           | <u>GOVERNMENTAL<br/>ACTIVITIES</u> | <u>BUSINESS-TYPE<br/>ACTIVITIES</u> | <u>TOTAL</u>          |
|---------------------------|------------------------------------|-------------------------------------|-----------------------|
| Net (expense)/revenue     | <u>\$(11,834,230)</u>              | <u>\$ 27,686</u>                    | <u>\$(11,806,544)</u> |
| General revenue:          |                                    |                                     |                       |
| Taxes:                    |                                    |                                     |                       |
| Property taxes            | 528,761                            |                                     | 528,761               |
| Municipal tax             | 335,347                            |                                     | 335,347               |
| Sale and usage tax        | 1,990,428                          |                                     | 1,990,428             |
| Construction excise Taxes | 142,269                            |                                     | 142,269               |
| Grants and entitlements   | 6,156,605                          | 367,020                             | 6,523,625             |
| Interest                  | 69,772                             | 1,424                               | 71,196                |
| Rent                      | 39,430                             |                                     | 39,430                |
| Other                     | <u>698,457</u>                     | <u>66,825</u>                       | <u>765,282</u>        |
| Total general revenues    | <u>9,961,069</u>                   | <u>435,269</u>                      | <u>10,396,338</u>     |
| Changes in net position   | (1,873,161)                        | 462,955                             | (1,410,206)           |
| Net position at beginning | <u>18,931,699</u>                  | <u>3,626,805</u>                    | <u>22,558,504</u>     |
| Net position at end       | <u>\$ 17,058,538</u>               | <u>\$4,089,760</u>                  | <u>\$ 21,148,298</u>  |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2015**

|   | <u>GENERAL</u><br><u>FUND</u> | <u>DEBT SERVICE</u><br><u>FUND</u> | <u>STATE LEGISLATIVE</u><br><u>JOINT RESOLUTIONS</u><br><u>FUND</u> | <u>OTHER</u><br><u>GOVERNMENTAL</u><br><u>FUNDS</u> | <u>TOTAL</u><br><u>GOVERNMENTAL</u><br><u>FUNDS</u> |
|---|-------------------------------|------------------------------------|---|---|---|
| <b>Assets:</b>                            |                               |                                    |   |   |   |
| Cash:                                     |                               |                                    |   |   |   |
| Cash in bank                              | \$ 3,818,136                  |                                    | \$ 350,354  | \$3,954,122   | \$ 8,122,612  |
| Cash with fiscal agent                    |                               | \$1,483,098                        |   | 1,522,953   | 3,006,051   |
| Receivables:                              |                               |                                    |   |   |   |
| Amount due from:                          |                               |                                    |   |   |   |
| Other governmental entities               | 60,138                        |                                    |   | 417,964   | 478,102   |
| Other funds                               | 497,563                       |                                    | 2,013,073   | 1,013,782   | 3,524,418   |
| Property tax                              | 854,311                       | 219,764                            |   |   | 1,074,075   |
| Sale and usage tax                        | <u>26,814</u>                 | <u>164,778</u>                     |   |   | <u>191,592</u>                                      |
| <b>Total assets</b>                       | <u>\$ 5,256,962</u>           | <u>\$1,867,640</u>                 | <u>\$2,363,427</u>  | <u>\$6,908,821</u>                                  | <u>\$16,396,850</u>                                 |
| <b>Liabilities:</b>                       |                               |                                    |   |   |   |
| Accounts payable and accrued expenses     | \$ 122,025                    |                                    | \$ 425,745  | \$ 506,160  | \$ 1,053,930  |
| Due to other fund                         | 1,468,526                     |                                    | 967,526   | 1,088,366   | 3,524,418   |
| Advances from federal agencies            |                               |                                    |   | 157,581   | 157,581   |
| Due to other governmental entities        | <u>123,608</u>                |                                    |   | <u>14</u>   | <u>123,622</u>                                      |
| <b>Total liabilities</b>                  | <u>1,714,159</u>              |                                    | <u>1,393,271</u>  | <u>1,752,121</u>                                    | <u>4,859,551</u>                                    |
| <b>Deferred inflows of resources:</b>     |                               |                                    |   |   |   |
| Property tax                              | 735,758                       | 189,267                            |   |   | 925,025   |
| Municipal tax                             | <u>143,683</u>                |                                    |   |   | <u>143,683</u>                                      |
|   | <u>879,441</u>                | <u>189,267</u>                     |   |   | <u>1,068,708</u>                                    |
| <b>Fund balance</b>                       |                               |                                    |   |   |   |
| Restricted for:                           |                               |                                    |   |   |   |
| Debt services                             |                               | 1,678,373                          |   |   | 1,678,373   |
| Capital project                           |                               |                                    | 970,156   | 2,230,140   | 3,200,296   |
| Other purpose                             |                               |                                    |   | 2,926,560   | 2,926,560   |
| Committed                                 | 249,704                       |                                    |   |   | 249,704   |
| Unassigned                                | <u>2,413,658</u>              |                                    |   |   | <u>2,413,658</u>                                    |
| <b>Total fund balance</b>                 | <u>2,663,362</u>              | <u>1,678,373</u>                   | <u>970,156</u>  | <u>5,156,700</u>                                    | <u>10,468,591</u>                                   |
| <b>Total liabilities and fund balance</b> | <u>\$5,256,962</u>            | <u>\$1,867,640</u>                 | <u>\$2,363,427</u>  | <u>\$6,908,821</u>                                  | <u>\$16,396,850</u>                                 |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**AS OF JUNE 30, 2015**

|   |                             |
|---|-----------------------------|
| <b>Fund balances in governmental funds</b>  | <b>\$ 10,468,591</b>        |
| <br><i>Amounts reported for governmental activities in the Statement of Net position is different because:</i>                              |                             |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements. | 24,748,663                  |
| Unavailable revenue in the governmental funds that are recorded as revenue in the statement of net position.                                | 925,025                     |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:                            |                             |
| Bonds and notes payable   | (16,851,000)                |
| Compensated absences  | (601,910)                   |
| Amount due to CRIM  | (1,471,008)                 |
| Accrued interest  | (159,823)                   |
| <b><i>Net position of governmental activities</i></b>   | <b><u>\$ 17,058,538</u></b> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

|   | <u>GENERAL<br/>FUND</u> | <u>DEBT SERVICE<br/>FUND</u> | <u>STATE<br/>LEGISLATIVE JOINT<br/>RESOLUTIONS<br/>FUNDS</u> | <u>OTHER<br/>GOVERNMENTAL<br/>FUNDS</u> | <u>TOTAL<br/>GOVERNMENTAL<br/>FUNDS</u> |
|---|-------------------------|------------------------------|--|---|---|
| <b>Revenues:</b>  |                         |                              |  |   |   |
| Taxes:  |                         |                              |  |   |   |
| Property taxes  | \$ 836,846              | \$ 186,918                   |  |   | \$ 1,023,764                            |
| Patents   | 335,347                 |                              |  |   | 335,347                                 |
| Sales and usage taxes                                   | 870,529                 | 1,119,899                    |  |   | 1,990,428                               |
| Construction excise tax                                 | 142,269                 |                              |  |   | 142,269                                 |
| Grants and entitlements                                 | 6,156,605               |                              |  | \$ 1,858,795                            | 8,015,400                               |
| Interest  |                         | 998                          | \$ 6   | 68,768                                  | 69,772                                  |
| Rent  | 49,345                  |                              |  |   | 49,345                                  |
| Licenses and permits                                    | 5,940                   |                              |  |   | 5,940                                   |
| Other   | <u>671,841</u>          |                              |  | <u>20,676</u>                           | <u>692,517</u>                          |
| Total revenues  | <u>9,068,722</u>        | <u>1,307,815</u>             | <u>6</u>   | <u>1,948,239</u>                        | <u>12,324,782</u>                       |
| <b>Expenditures:</b>                                    |                         |                              |  |   |   |
| General administration                                  | 5,482,156               |                              |  | 250,440                                 | 5,732,596                               |
| Public safety   | 321,927                 |                              |  | 56                                      | 321,983                                 |
| Culture, tourism, education and recreation              | 637,679                 |                              |  |   | 637,679                                 |
| Public works  | 1,460,979               |                              | 787,901  | 669,776                                 | 2,918,656                               |
| Health, sanitation and welfare                          | 150,226                 |                              | 15,973   | 3,100,402                               | 3,266,601                               |
| Debt service:   |                         |                              |  |   |   |
| Principal   |                         | 524,374                      |  |   | 524,374                                 |
| Interest  |                         | <u>733,094</u>               |  |   | <u>733,094</u>                          |
| Total expenditures                                      | <u>8,052,967</u>        | <u>1,257,468</u>             | <u>803,874</u>   | <u>4,020,674</u>                        | <u>14,134,983</u>                       |
| <b>Excess (deficiency) of revenue over expenditures</b> | <u>1,015,755</u>        | <u>50,347</u>                | <u>(803,868)</u>   | <u>(2,072,435)</u>                      | <u>(1,810,201)</u>                      |
| <b>Other financing sources (uses):</b>                  |                         |                              |  |   |   |
| Operating transfer from other funds                     | 1,017,460               | 635,492                      |  | 1,289,460                               | 2,942,412                               |
| Operating transfer to other funds                       | <u>(1,878,944)</u>      | <u>(626,347)</u>             |  | <u>(437,121)</u>                        | <u>2,942,412</u>                        |
| <b>Total other financing sources</b>                    | <u>(861,484)</u>        | <u>9,145</u>                 |  | <u>852,339</u>                          |   |
| <b>Net income</b>                                       | 154,271                 | 59,492                       | (803,868)  | (1,220,096)                             | (1,810,201)                             |
| <b>Fund balance at beginning of year</b>                | <u>2,509,091</u>        | <u>1,618,881</u>             | <u>1,774,024</u>   | <u>6,376,796</u>                        | <u>12,278,792</u>                       |
| <b>Fund balance at end of year</b>                      | <u>\$2,663,362</u>      | <u>\$1,678,373</u>           | <u>\$ 970,156</u>  | <u>\$ 5,156,700</u>                     | <u>\$10,468,591</u>                     |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Net change in fund balances – total governmental funds** \$(1,810,201)

*Amounts reported for Governmental Activities in the Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. (793,390)

Depreciation expense on capital assets is reported in the statement of activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. 624,203

Governmental funds report principal payments on long-term debts as expenditures, whereas the principal payments reduce the long-term debt in the statement of net position. 524,374

Change in accrued expenses and deferred revenues which do not require the use of current financial resources:

|                       |              |
|-----------------------|--------------|
| CRIM                  | 50,591       |
| Compensating absences | 22,499       |
| Deferred revenue      | (495,003)    |
| Interest              | <u>3,766</u> |

***Changes in Net Position of Governmental Activities*** **\$(1,873,161)**

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF FINANCIAL POSITION-PROPRIETARY FUND  
AS OF JUNE 30, 2015

ASSETS

|                                       | <u>Proprietary Fund</u><br><u>Valle Verde Project</u> |
|---------------------------------------|---|
| <b>Current Assets:</b>                |   |
| Cash                                  | \$ 216,418  |
| Accounts receivable:                  |   |
| Other governmental agencies           | 75,373  |
| Tenants accounts receivable and other | <u>15,782</u>   |
|                                       | <u>307,573</u>  |
| <b>Noncurrent assets:</b>             |   |
| Property and equipment                | 4,086,340   |
| Restricted deposits                   | <u>256,725</u>  |
|                                       | <u>4,343,065</u>                                      |
|                                       | <u>\$4,650,638</u>                                    |

LIABILITIES AND NET POSITION

|   |                    |
|---|--------------------|
| <b>Liabilities:</b>                             |                    |
| Current liabilities:                            |                    |
| Current maturities of mortgage note             | 191,185            |
| Accounts payable and accrued expenses           | <u>147,971</u>     |
|   | 339,156            |
| Noncurrent liabilities:                         |                    |
| Mortgage note, net of current maturities        | <u>221,722</u>     |
|   | <u>560,878</u>     |
| <b>Net Position:</b>                            |                    |
| Invested in capital assets, net of related debt | 3,673,433          |
| Restricted deposit                              | 256,725            |
| Unrestricted                                    | <u>159,602</u>     |
|   | <u>4,089,760</u>   |
| <b>Total liabilities and net position</b>       | <u>\$4,650,638</u> |

The accompanying notes are an integral part of these financial statements.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF ACTIVITIES-PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2015

|  | <u>Proprietary Fund</u><br><u>Valle Verde Project</u> |
|--|---|
| <b>Revenues:</b>                         |   |
| Rent                                     | \$ 513,304  |
| Capital project grant                    | 367,020   |
| Interest subsidy                         | 65,381  |
| Other                                    | <u>1,444</u>  |
| <b>Total revenues</b>                    | <u>947,149</u>  |
| <b>Expenses:</b>                         |   |
| Administrative                           | 131,285   |
| Utilities                                | 16,941  |
| Operating maintenance                    | 138,751   |
| Taxes and insurance                      | 35,589  |
| Depreciation                             | <u>162,404</u>  |
| <b>Total expenses</b>                    | <u>484,970</u>  |
| <b>Operating income</b>                  | <u>462,179</u>  |
| <b>Non-operating revenues (expenses)</b> |   |
| Interest received                        | 1,424   |
| Interest on mortgage                     | <u>(648)</u>  |
|  | <u>776</u>  |
| Change in net position                   | 462,955   |
| Net position, beginning of year          | <u>3,626,805</u>                                      |
| <b>Net position, end of year</b>         | <u>\$4,089,760</u>                                    |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
STATEMENT OF CASH FLOWS-PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

|  | <u>Proprietary Fund</u><br><u>Valle Verde Project</u> |
|--|---|
| <b>Cash flows from operating activities:</b>                           |   |
| Cash received from tenants and HUD                                     | \$ 513,110  |
| Cash received from capital project grant                               | 1,175,803   |
| Other cash received  | <u>130,509</u>  |
|  | <u>1,819,422</u>                                      |
| Administrative   | (29,510)  |
| Management fees  | (42,624)  |
| Salaries and wages   | (108,795)   |
| Utilities  | (16,941)  |
| Operating and maintenance  | (913,561)   |
| Tenants' deposits held in trust  | (290)   |
| Miscellaneous taxes and insurance                                      | <u>(31,931)</u>                                       |
|  | <u>(1,143,652)</u>                                    |
| Net cash provided by operating activities                              | <u>675,770</u>  |
| <b>Cash flows from non-capital financing activities:</b>               |   |
| Miscellaneous financial  | <u>(648)</u>  |
| Net cash used by non-capital financial activities                      | <u>(648)</u>  |
| <b>Cash flows from capital and related financing activities:</b>       |   |
| Mortgage principal payments  | (115,105)   |
| Paid for construction in progress                                      | (147,812)   |
| Purchases of capital assets  | <u>(500,856)</u>                                      |
| Net cash used in capital and related financing activities              | <u>(763,773)</u>                                      |
| <b>Cash flows from investing activities:</b>                           |   |
| Interest in investments  | 1,424   |
| Deposit to reserve for replacement and<br>interest retained in account | (23,595)  |
| Withdrawals from reserve for replacements                              | 178,742   |
| Deposits to and interest earned and retained<br>for insurance escrow   | (17,760)  |
| Withdrawals from insurance escrow                                      | <u>21,007</u>   |
| Net cash provided by investing activities                              | <u>159,818</u>  |
| Net increase in cash   | 71,167  |
| <b>Cash at beginning of year</b>                                       | <u>145,251</u>  |
| <b>Cash at end of year</b>   | <u>\$ 216,418</u>                                     |

(continue)

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**STATEMENT OF CASH FLOWS-PROPRIETARY FUND (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**Proprietary Fund**  
**Valle Verde Project**

**Cash flows from operating activities:**

|  |                             |
|--|-----------------------------|
| Change in the net position   | <u>\$462,179</u>            |
| Adjustment to reconcile change in net position to net cash provided by operating activities: |                             |
| Depreciation   | 162,404                     |
| Mortgage subsidy   | (65,381)                    |
| (Increase) decrease in:  |                             |
| Receivables  | 938,573                     |
| Tenant security deposits   | (1,574)                     |
| Increase (decrease) in:  |                             |
| Accounts payable   | (153,600)                   |
| Pollution remediation obligation   | (670,845)                   |
| Accrued expenses   | 2,730                       |
| Tenant security deposits   | <u>1,284</u>                |
|  | <u>213,591</u>              |
| <br><b>Net cash provided by operating activities</b>   | <br><u><b>\$675,770</b></u> |

The accompanying notes are an integral part of these financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**1. ORGANIZATION**

The Municipality of Adjuntas (the Municipality) is a political and legal entity with full legislative and administrative faculties in every affair of municipal character, with personal succession, existence and legal personality separate and independent from the governmental of the Commonwealth of Puerto Rico.

The municipal government is comprised of the executive and legislative bodies, which are elected every four years in the Puerto Rico general elections. The executive power is exercised by the Mayor and the legislative power by the Municipal Legislative Body, which has twelve members.

The Municipality provides the following services to its community: health, public works, education, public safety, housing, community and social services, welfare, culture and recreation, as well as many other general and administrative services.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the Municipality relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant policies of the Municipality are described below.

**Reporting entity**

A reporting entity consists of the primary government, component units, and other organization that are included to ensure that financial statements are not misleading. The primary government of the Municipality consists of all funds and departments that are not legally separate from the Municipality. For the Municipality of Adjuntas, these include various services such as police protection, recreation (including parks), street maintenance and repair, sanitation, and general administrative services. The operation of each of these activities is directly controlled by the Municipality's Legislative Body through the budgetary process.

Component units are legally separate organizations for which the Municipality is financially accountable. The Municipality has no component units.

**Government wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are support mainly by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government wide and fund financial statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund financial statement segregate transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non- major funds are aggregated and presented in a single column.

The Municipality reports the following major governmental funds:

1) General Fund

This is the operating fund of the Municipality and accounts for all financial resources, except those required to be accounted for in another fund.

2) Debt Service fund

This fund accounts for revenue form property and sales tax for the payments of general long term debt liabilities.

3) State Legislative Joint Resolutions Fund

This fund accounts for revenue sources provided by the Commonwealth of Puerto Rico's Legislature for the development of capital projects and other community services.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide Statement of Net Position and the Statement of Activities, both government and business type activities, are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement focus, basis of accounting and financial statement presentation (Continued)**

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Under this method revenue are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for debt service, compensated absences and claims and judgments expenditures which are reported when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary fund financial statements include a statement of financial position, a statement activity, and a statement of cash flows for a low income housing project know as Valle Verde Housing Project.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are include on the statement of financial position. The statement of activities presents increases (revenues) and decrease (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash, cash equivalents, cash with fiscal agent and investment**

The Municipality's finance director is responsible for investing available resources. The Municipality is restricted by law to invest only in savings accounts and certificates of deposit with banks qualified as a depository of public funds by the Puerto Rico Treasury Department (PRTD) or in instruments of the Government Development Bank for Puerto Rico (GDB). The Municipality's policy is to invest any excess cash in interest bearing deposits with institutions qualified by the PRTD. Earnings from these funds are recorded in the corresponding fund as interest income.

Cash with fiscal agent in the governmental fund consists of unused proceeds from bonds and notes issued for the acquisition and construction of major capital improvements. Cash with fiscal agent in the debt service fund represents special additional property tax collections retained by the Municipal Revenue Collection Center (CRIM) and restricted for the payment of the Municipality's debt service, as established by law. Cash with fiscal agent are deposits with the GDB.

The Municipality considers all investments with an original maturity of three months or less to be cash equivalents.

Pursuant to the Statement of Investment Guidelines for the Government of the Commonwealth of Puerto Rico the balances deposited in commercial banks by the Municipality are insured by the Federal Deposit Insurance Corporation (FDIC) generally up to a maximum of \$250,000 per depositor. In addition, public funds deposited in commercial banks by the Municipality are fully collateralized for the amount in excess of federal depository insurance. All securities pledged as collateral are held by agents designated by the Commonwealth's Secretary of Treasury but not in the Municipality's name. Deposits with GDB are uninsured and uncollateralized and thus represent a custodial credit risk, because in the event that this financial institution fails, the Municipality may not be able to recover these deposits.

The GDB's liquidity was adversely affected by a significant increase in credit spreads for obligations of the Commonwealth and its public corporations, the Commonwealth's limited capital market access, and a significant reduction of liquidity in the local Puerto Rico capital markets. Then, the credit rating downgrades could further adversely affect the GDB's liquidity. However, no losses related to defaults by GDB on deposit transactions have been incurred by the Municipality through June 30, 2015.

**Interfund receivables and payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans). Interfunds receivables and payables between funds within the governmental activities are eliminated in the statement of net position.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure (which is normally immovable and of value only to the Municipality, such as roads, bridges, streets sidewalks, and drainage system), are reported in the applicable governmental columns in the government-wide financial statements. The Municipality has elected to not capitalize infrastructure acquired before the implementation date of GASB 34 (July 1, 2003).

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. When historical cost is not available it is estimated using historic sales of the year of the acquisition of the related capital assets.

Depreciation in capital assets is calculated on the straight-line basis over the following estimated useful lives:

|                        |             |
|------------------------|-------------|
| Building               | 50-40 years |
| Equipment and vehicles | 5-10 years  |
| Infrastructure         | 40 years    |

The Municipality decides when to capitalize an asset using a capitalization threshold of \$25.

**Impairment of Capital Assets**

The Municipality periodically evaluates long-term assets for impairment in accordance with GASB Statement No. 34, (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) and GASB No.42, (*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries Governments*) are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Impairment of Capital Assets (Continued)**

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units' approach, an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units' approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

**Fund balance**

Pursuant to the provisions of GASB 54, the fund balances amounts are reported as no spendable restricted, committed, assigned and unassigned, based on the relative strength of the constraints that control how specific amounts can be spent, as described follows:

- ❖ **No spendable** – Represent resources that cannot be spent readily with cash or are legally or contractually required not to be spent, including but not limited to inventories, prepaid items, long-term balances of loans and notes receivable.
- ❖ **Restricted** – Represent resources that can be spent only for the specific purposes stipulated by constitutional provisions, external resource providers (externally imposed by creditors or grantors), or through enabling legislation (that is, legislation that creates a new revenue sources and restrict its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ❖ **Committed** – Represent resources used for specific purposes, imposed by formal action of the entity's highest level of decision making authority (governing body through resolutions) and can only be charged by similar resolutions, no later than the end of the fiscal year.
- ❖ **Assigned** - Represent resources intended to be used by the entity for specific purposes but do not meet the criteria to be classified as restricted or committed (generally resolutions approved by the governing body). Intent can be expressed by the governing body, or by and official or body to which the governing body delegates authority in conformity with the bylaws of the Authority. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Fund balance (Continued)**

- ❖ **Unassigned** – Represent the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purpose for which amounts had been restricted, committed, or assigned.

**Risk financing**

The Municipality carries insurance to cover casualty, theft, tort claims and other losses. Cost of insurance deducted from the gross property tax collections by the Municipal Revenue Collection Center (the "CRIM") for the year ended June 30, 2015 amounted to approximately \$154,723. The current insurance policies have not been cancelled or terminated. The CRIM also deducted approximately \$129,829 for workers' compensation insurance covering all municipal employees.

**Compensated absences**

Employees accumulate vacation leave at a rate of 2.5 days per month up to maximum of 60 days. Unpaid vacation time accumulated is fully vested to the employees from the first day of work. Employees accumulate sick leave at a rate of 1.5 days per month up to a maximum 90 days. In the event of employee resignation, the employee is paid for accumulated vacations days up to the maximum allowed.

Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten years or more of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed vacations and vested sick benefits are accounted for in the statement of net position.

**Post-Employment Benefits**

Pursuant various Acts, the Municipality is required to cover annually the 3% increase (cost of living allowance) in the retirement plan of its retirees employees. Substantially all of the employees may become eligible for these benefits if they reach normal retirement while working for the Municipality. For the fiscal year ended June 30, 2015, post-employment benefits retirees amounted to \$183,125. These benefits are recorded as expenditures in the general fund when notified by the retirement plan.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pensions**

GASB 68 requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer's proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate share should be determined using the employer's proportion of the collective net pension liability. However, as of the date that financial statement has been issued, the ERS has not issued its financial statements for the year ended June 30, 2014. The information related to the pension plans is not available and accordingly, it has not been included in the accompanying financial statements of the Municipality for the year ended June 30, 2015.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events**

Management has evaluated subsequent events through March 15, 2016, the date the financial statements were evaluated to be issued.

**3. PROPERTY TAX**

The personal property tax is self assessed by the taxpayer on a return, which is to be filed by May 15 of each year with the Municipal Revenue Collector Center (the CRIM), a governmental entity created by the Commonwealth of Puerto Rico. Real property tax is assessed by the CRIM on each piece of real state and on each building.

The assessment is made as of January 1 of each year and is based on current values for personal property and on estimated values as of 1957 for real property tax. The tax on personal property must be paid in full together with the return by May 15. The tax on real property may be paid in two installments by July 1 and January 1.

The CRIM is responsible for the billing and collections of real and personal property taxes on behalf of all the municipalities of Puerto Rico. Before the beginning of each fiscal year, the CRIM informs the Municipality of the estimated amount of property tax expected to be collected for the ensuing fiscal year. Throughout the year, the CRIM advances funds to the Municipality based on the initial estimated collections. The CRIM is required by law to prepare a settlement statement on a fiscal year basis, where by a comparison is made between the amounts advanced to the Municipality and amounts actually collected from taxpayers.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**3. PROPERTY TAX (Continued)**

This settlement has to be completed on a preliminary basis not later than three months after fiscal year-end, and a final settlement made not later than six months after year-end. If the CRIM remits to the municipality property tax advances, which are less than the tax actually collected, a receivable from the CRIM is recorded at June 30. However, if advances exceed the amount actually collected by the CRIM, a liability to the CRIM is recorded at June 30.

Residential real property occupied by its owner is exempt by law from the payment of property taxes on the first \$15,000 of the assessed value. For such exempt amounts, the Puerto Rico Treasury Department assumes payment of the basic tax to the Municipalities, except for property assessed at less than \$3,500 for which no payment is made. As part of Law No. 83 of August 30, 1991, as amended, the exempt amount to be paid by Puerto Rico Treasury Department to the Municipalities was frozen as of January 1, 1992. In addition, the law grants a tax exemption from the payment of personal property taxes of up to \$50,000 of the assessed value to retailers having annual net sales of less than \$150,000.

The annual rate for fiscal year 2015 is 8.53% for real property and 6.53% for personal property of which 1.03% of both tax rates are for the redemption of public debt issued by the Commonwealth of Puerto Rico. The remaining percentage is distributed as follows: (a) 6.0% and 4.0%, respectively, represent the Municipality's basic property tax rate, which is appropriated for general purposes and accounted for in the general fund. A portion of such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities; (b) 1.50% represents the special ad valorem tax restricted for debt service and accounted for in the debt service fund. The Commonwealth also contributes an annual tax rate of 0.2% of the property tax collected.

The composition of property taxes receivable and the related deferred revenues is as follows at June 30, 2015:

|   | <b>General<br/>Fund</b> | <b>Debt Service<br/>Fund</b> | <b>Total</b>       |
|---|-------------------------|------------------------------|--------------------|
| Gross property taxes receivable           | \$7,906,592             | \$866,478                    | \$8,773,070        |
| Less allowance for uncollectible accounts | <u>7,052,281</u>        | <u>646,714</u>               | <u>7,698,995</u>   |
| Net property taxes receivable             | <u>\$ 854,311</u>       | <u>\$219,764</u>             | <u>\$1,074,075</u> |
| Deferred property tax revenues in GFFS    | <u>\$ 735,758</u>       | <u>\$189,267</u>             | <u>\$ 925,025</u>  |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**4. VOLUME OF BUSINESS TAX**

The municipal license tax is levied annually based on the volume of business of certain businesses and industrial organizations that operate in the Municipality. The tax rates are 1.50% for financing institutions and .50% for the other business institutions. The taxpayers must file a return not later than April 15 of every year and the tax is payable in two installments, due in July 1 and January 1 of the following fiscal year. The amount levied could be paid with a five percent (5%) discount if payment is made on or before the filing date. The Municipality levied and collected during the year ended June 30, 2015, \$143,683 corresponding to the following fiscal year volume of business tax. This amount was recorded as deferred revenue.

**5. SALE AND USAGE TAX**

Pursuant to an amendment to Puerto Rico Internal Revenue Code, Act 117 of July 4, 2006, the Municipal Legislature approved a city tax contribution (SUT), effective October 3, 2006 to 1.5% over all transactions of sales of goods and services made on Adjuntas boundaries. The retailers are required to file monthly sales tax returns by 20<sup>th</sup> days following the month in which the tax are collected.

Pursuant to the provision at the Act 72-2015 and effective July 1, 2015, the citizenship contribution was uniformly established in 1.5%, for all the Municipality of Puerto Rico, of which 1% is collected by the Municipality and the remaining 0.5% is to be collected by the Treasury Department of the Commonwealth of Puerto Rico. A portion of the amount collected by the Treasury Department is submitted to Municipal Finance Corporation (COFIM, by its Spanish acronym), a redemption fund for financing capital projects to the municipalities.

COFIM is a public corporation and instrumentality of the Commonwealth of Puerto Rico, attached to the Government Development Bank. COFIM is authorized to issue and use other financing mechanisms to pay or refinance, directly or indirectly, in whole or in part, the debts of the municipalities of the Commonwealth payable or backed by the municipal sales and use tax. COFIM receives, from the first revenues of the municipal sales and use tax collected, the greater of: (i) an amount computed by applying a 0.3% fixed tax rate to the total revenues collected, or (ii) a fixed amount that increases annually, known as the Annual Fixed Income. These revenues, which are deposited in COFIM's Redemption Fund, are used to pay and secure the debt issued by COFIM. As an independent corporation, COFIM has the same powers, rights and faculties as the GDB under its Charter.

**6. INTERGOVERNMENTAL REVENUES**

Intergovernmental revenues sources consist of contributions received from certain quasi-public corporations of the Commonwealth of Puerto Rico, such as the Puerto Rico Electric Power Authority. In addition, the Municipality receives some subsidies from the Commonwealth of Puerto Rico which include, among others, a subsidy for general operations and for the financing of capital improvements. The intergovernmental revenues are recorded in the general fund, except for those that are legally restricted for expenditure for specified purposes which are recorded in the other governmental funds.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**7. VALLE VERDE HOUSING AND RESTRICTED DEPOSIT**

**VALLE VERDE HOUSING (the Project)** is a housing development consisting of land, building and other improvements owned by Municipality of Adjuntas. The Project leases it 96 rental units to low and moderate income individuals in the Adjuntas area. The accompanying financial statements are those of the Project and do not represent the financial statements of the Municipality.

The Project operates under Section 515 of USDA Rural Development (USDA-RD) Housing of the National Housing Act with HUD Section 8 Housing Assistance Payments program (new construction). The properties are operated subject to Section 8 Housing Assistance Payments agreements with the U.S. Department of Housing and Urban Development (HUD), and a significant portion of the Project's rental income is received form this agency.

The agreement was effective in 1985, with terms of five years, with seven renewal options of five years each.

HUD has agreed to pay the Project the difference between the contract rent, as defined in the agreement, and that portion of rent payable by qualified tenants. In addition, HUD has agreed to pay a portion of the contract rent to the project during certain vacancy periods.

Under the term of the Administrative Order, Valle Verde Housing (the Project) is required to set aside specified amounts and the surplus cash deposits for the replacement of property and other project expenditures as approved by USDA-Rural Development.

The Project maintains a restricted cash account for insurance escrow. In addition, all tenant security deposits are deposited into a separate bank account and held in trust for the tenants until they vacate the property. Any amounts not returned to the tenant due to leave violations are transferred to the Projects' general operating account. Restricted funds are held in separate accounts and are not available for operating purposes.

Restricted cash in the business-type activities consists of:

|                          |                  |
|--------------------------|------------------|
| Escrow deposit           | \$ 16,607        |
| Tenant security deposits | 15,393           |
| Reserve for replacement  | <u>224,725</u>   |
|                          | <u>\$256,725</u> |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**8. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

| <b>Primary Government</b>                         | <b>Balance<br/>June 30, 2014</b> | <b>Increases</b>    | <b>Decreases</b>     | <b>Balance<br/>June 30, 2015</b> |
|---|----------------------------------|---------------------|----------------------|----------------------------------|
| <b>Governmental activities:</b>                   |                                  |                     |                      |                                  |
| Capital asset, not being depreciated:             |                                  |                     |                      |                                  |
| Land  | \$ 1,983,180                     |                     |                      | \$ 1,983,180                     |
| Construction in progress                          | <u>2,535,933</u>                 | <u>\$ 575,254</u>   | <u>\$(310,920)</u>   | <u>2,800,267</u>                 |
|   | <u>4,519,113</u>                 | <u>575,254</u>      | <u>(310,920)</u>     | <u>4,783,447</u>                 |
| Capital assets being depreciated:                 |                                  |                     |                      |                                  |
| Buildings   | 9,886,799                        | 56,490              |                      | 9,943,289                        |
| Equipment and vehicles                            | 5,063,832                        | 173,545             | (129)                | 5,237,248                        |
| Infrastructure                                    | <u>14,688,950</u>                | <u>129,834</u>      |                      | <u>14,818,784</u>                |
| Total capital assets being depreciated            | <u>29,639,581</u>                | <u>359,869</u>      | <u>(129)</u>         | <u>29,999,321</u>                |
| Less accumulated depreciation for:                |                                  |                     |                      |                                  |
| Buildings   | (3,082,413)                      | (229,316)           |                      | (3,311,729)                      |
| Equipment and vehicles                            | (4,499,408)                      | (135,319)           | 129                  | (4,634,598)                      |
| Infrastructure                                    | <u>(1,659,023)</u>               | <u>(428,755)</u>    |                      | <u>(2,087,778)</u>               |
| Total accumulated depreciation                    | <u>(9,240,844)</u>               | <u>(793,390)</u>    | <u>129</u>           | <u>(10,034,105)</u>              |
| Total depreciable capital assets, net             | <u>20,398,737</u>                | <u>(433,521)</u>    |                      | <u>19,965,216</u>                |
| <b>Governmental activities capital assets net</b> | <u>24,917,850</u>                | <u>141,733</u>      | <u>(310,920)</u>     | <u>24,748,663</u>                |
| <b>Business-type activities:</b>                  |                                  |                     |                      |                                  |
| Capital assets not being depreciated:             |                                  |                     |                      |                                  |
| Land and land improvements                        | 117,280                          |                     |                      | 117,280                          |
| Construction in progress                          | <u>2,921,845</u>                 |                     | <u>(2,921,845)</u>   | <u>117,280</u>                   |
|   | <u>3,039,125</u>                 |                     | <u>(2,921,845)</u>   | <u>117,280</u>                   |
| Capital assets being depreciated:                 |                                  |                     |                      |                                  |
| Building and improvements                         | 4,076,977                        | 3,401,017           |                      | 7,477,994                        |
| Equipment   | 526,695                          | 21,685              |                      | 548,380                          |
| Land improvement                                  | <u>245,579</u>                   |                     |                      | <u>245,579</u>                   |
|   | <u>4,849,251</u>                 | <u>3,422,702</u>    |                      | <u>8,271,953</u>                 |
| Less accumulated depreciation:                    |                                  |                     |                      |                                  |
| Building and building improvement                 | (3,435,906)                      | (144,438)           |                      | (3,580,344)                      |
| Equipment   | (503,038)                        | (17,831)            |                      | (520,869)                        |
| Land improvements                                 | <u>(201,544)</u>                 | <u>(136)</u>        |                      | <u>(201,680)</u>                 |
|   | <u>(4,140,488)</u>               | <u>(162,405)</u>    |                      | <u>(4,302,893)</u>               |
|   | <u>708,763</u>                   | <u>3,260,297</u>    |                      | <u>3,969,060</u>                 |
| <b>Business activities capital assets, net</b>    | <u>3,747,888</u>                 | <u>3,260,297</u>    | <u>(2,921,845)</u>   | <u>4,086,340</u>                 |
| Total   | <u>\$28,665,738</u>              | <u>\$ 3,402,030</u> | <u>\$(3,232,765)</u> | <u>\$ 28,835,003</u>             |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**8. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions/programs of the Municipality as follows:

|                                   | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|-----------------------------------|------------------------------------|-------------------------------------|
| General administration            | \$117,307                          |                                     |
| Public safety                     | 151,314                            |                                     |
| Public works                      | 329,588                            |                                     |
| Education, culture and recreation | 193,911                            |                                     |
| Health, sanitation and welfare    | 1,270                              |                                     |
| Housing                           | <u>                    </u>        | <u>\$162,405</u>                    |
| Total depreciation expense        | <u>\$793,390</u>                   | <u>\$162,405</u>                    |

**9. LONG-TERM DEBTS**

Long-term liability activity for the year ended June 30, 2015 was as follows:

| <b>Primary Government</b>        | <b>Beginning</b>    |                               |                    | <b>Ending</b>               | <b>Due within</b>           |
|----------------------------------|---------------------|-------------------------------|--------------------|-----------------------------|-----------------------------|
| <b>Governmental activities:</b>  | <b>Balance</b>      | <b>Additions</b>              | <b>Reductions</b>  | <b>Balance</b>              | <b>one year</b>             |
| Notes and bonds payable          | \$17,375,374        |                               | \$(524,374)        | \$16,851,000                | \$ 527,000                  |
| Other long-term debt:            |                     |                               |                    |                             |                             |
| Compensated absences             | 624,409             |                               | (22,499)           | 601,910                     | 450,000                     |
| Amount due to CRIM               | <u>1,521,599</u>    | <u>                    </u>   | <u>(50,591)</u>    | <u>1,471,008</u>            | <u>53,382</u>               |
| Total                            | <u>19,521,382</u>   | <u>                    </u>   | <u>(597,464)</u>   | <u>18,923,918</u>           | <u>1,030,382</u>            |
| <b>Business-type activities:</b> |                     |                               |                    |                             |                             |
| Mortgage payable                 | 593,993             |                               | (181,086)          | 412,907                     | 191,185                     |
| Pollution remediation obligation | <u>153,000</u>      | <u>                    </u>   | <u>(153,000)</u>   | <u>                    </u> | <u>                    </u> |
|                                  | <u>746,993</u>      | <u>                    </u>   | <u>(334,086)</u>   | <u>412,907</u>              | <u>191,185</u>              |
| Total                            | <u>\$20,268,375</u> | <u>\$                    </u> | <u>\$(931,550)</u> | <u>\$19,336,825</u>         | <u>\$1,221,567</u>          |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**9. LONG-TERM DEBTS (CONTINUED)**

Governmental activities:

A. Notes and Bonds:

|   |                     |
|---|---------------------|
| \$245,000 General Municipal Obligation Note of 2014 payable in an annual installments ranging from \$35,000 to \$45,000 through July 1, 2017 plus interest at 7.50%.  | \$ 120,000          |
| \$4,120,000 Special Obligation of 2014 payable in an annual installments ranging \$80,000 to \$345,000 through July 1, 2035, plus interest at 7.50%.  | 3,850,000           |
| \$8,205,000 General Municipal Obligation of 2014 payable in an annual installments ranging from \$205,000 to \$553,000 through on July 1, 2036, plus interest at 5.30%.   | 7,500,000           |
| \$400,000 Special Obligation Bond of 1996 payable in one installment of \$40,000 on January 1, 2016, plus interest at LIBOR 90 days plus 1.25% of June 30, 2015 (1.52% at June 30, 2015).                             | 40,000              |
| \$1,365,000 General Municipal Obligation Bond of 2004 payable in annual installments ranging from \$50,000 to \$85,000 through July 1, 2029 plus interest at LIBOR 90 days' rate plus 1.25% (1.52% at June 30, 2015). | 970,000             |
| \$619,000 General Municipal Obligation Bond of 2007 payable in annual installment ranging from \$16,000 to \$52,000 through July 1, 2031 plus interest at LIBOR 90 days plus 1.25% (1.52% as of June 30, 2015).       | 523,000             |
| \$4,322,000 Special Obligation Note of 2008 payable in annual installments of \$101,000 to \$367,000 through July 1, 2032 plus interest at LIBOR 90 days' rate plus 1.25% (1.52% at June 30, 2015).                   | <u>3,848,000</u>    |
|   | <u>\$16,851,000</u> |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**9. LONG-TERM DEBTS (CONTINUED)**

The annual debt service requirements to maturity bonds and notes payables of June 30, 2015 are as follows:

| <b>Notes and Bonds Payable</b><br><b><u>Year ended June 30</u></b> | <b><u>Governmental-type Activities</u></b> |                           | <b><u>Agreement</u></b><br><b><u>Payment</u></b> |
|--|--|---------------------------|--|
|  | <b><u>Principal</u></b>                    | <b><u>Interest</u></b>    |  |
| 2016   | \$ 527,000                                 | \$ 709,150                | \$ 1,236,150                                     |
| 2017   | 530,000                                    | 685,189                   | 1,215,189  |
| 2018   | 569,000                                    | 661,998                   | 1,230,998  |
| 2019   | 555,000                                    | 639,105                   | 1,194,105  |
| 2020   | 592,000                                    | 616,577                   | 1,208,577  |
| 2021-2025  | 3,498,000                                  | 2,695,156                 | 6,193,156  |
| 2026-2030  | 4,712,000                                  | 1,890,982                 | 6,602,982  |
| 2031-2035  | 4,953,000                                  | 838,093                   | 5,791,093  |
| 2036-2037  | <u>915,000</u>                             | <u>25,455</u>             | <u>940,455</u>                                   |
|  | <b><u>\$16,851,000</u></b>                 | <b><u>\$8,761,705</u></b> | <b><u>\$25,612,705</u></b>                       |

**Amount due to CRIM**

On January 26, 2000, Public Law 42, as amended, was enacted which authorized the CRIM to obtain a loan up to \$200 million, and for a term not exceeding 30 years, to allow for the financing of the debt that the municipalities of Puerto Rico have with the CRIM arising from final settlements of property tax advances vs. actual collections through fiscal year 2000-2001. The amount that the municipalities will collect from the additional property taxes resulting from the increase in the subsidy from the central government to the municipalities was assigned through this law to repay such loan. The increase in this subsidy was the result of the Public Law 238, enacted on August 15, 1999. As of June 30, 2015, the amount due to CRIM amounted to \$1,366,478 and is payable in semi-annual installments of \$6,149 including interest at 3.1%.

In addition, the Municipality entered into a financing agreement with CRIM for the payment of delinquent property tax account sold to private investors. The financing agreement in the form of a line of credit bearing interests at 6.50% during the first 5 years, and variable interest (125 points over LIBOR rate) during the next 25 years. At June 30, 2015, the outstanding principal balance amounted to \$104,530 and is payable in annual installments of \$6,149. Interest at 3.1% is payable semi-annually.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015**

**9. LONG-TERM DEBTS (CONTINUED)**

The principal and Interest matured as follow:

| <u>Year ended June 30</u> | <u>Principal</u>   | <u>Interest</u>  | <u>Agreement<br/>Payment</u> |
|---------------------------|--------------------|------------------|------------------------------|
| 2016                      | \$ 53,383          | \$ 86,486        | \$ 139,869                   |
| 2017                      | 56,351             | 83,362           | 139,713                      |
| 2018                      | 59,505             | 80,052           | 139,557                      |
| 2019                      | 62,857             | 76,543           | 139,400                      |
| 2020                      | 66,420             | 72,824           | 139,244                      |
| 2021-2024                 | 393,896            | 299,981          | 693,877                      |
| 2025-2029                 | 523,251            | 166,722          | 689,973                      |
| 2030-2031                 | <u>255,345</u>     | <u>19,552</u>    | <u>274,897</u>               |
|                           | <u>\$1,471,008</u> | <u>\$885,522</u> | <u>\$2,356,530</u>           |

**Business-type activities:**

Consists of a 9% mortgage note used for project construction, payable in monthly installments of \$18,425, including interest, until 2017, collateralized with land and building. USDA Rural Development has provided a mortgage subsidy to the project in the amount of \$8,833, attributed to each monthly payment of principal and interest. This subsidy is awarded annually based on the project's current needs, and has reduced the project's monthly installments to \$9,592.

The note is collateralized by land and building. The note matures as follows:

| <u>Year ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Agreement<br/>Payment</u> |
|---------------------------|------------------|-----------------|------------------------------|
| 2016                      | \$191,185        | \$29,917        | \$221,102                    |
| 2017                      | <u>221,722</u>   | <u>11,982</u>   | <u>233,704</u>               |
|                           | <u>\$412,907</u> | <u>\$41,899</u> | <u>\$454,806</u>             |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**10. INTERFUND BALANCES AND ACTIVITIES**

**BALANCE DUE TO / FROM OTHER FUNDS:**

Balance due to / from other funds at June 30, 2015, consist of the following:

| Due from                | Due to                      |  |                            | Total              |
|-------------------------|-----------------------------|--|----------------------------|--------------------|
|                         | General fund                | State Legislature<br>joint resolution fund | Other governmental<br>fund |                    |
| General fund            |                             |  | \$ 497,563                 | \$ 497,563         |
| Head Start fund         | \$1,468,526                 |  | 544,547                    | 2,013,073          |
| Other governmental fund | <u>                    </u> | <u>\$967,526</u>                           | <u>46,256</u>              | <u>1,013,782</u>   |
| Total                   | <u>\$1,468,526</u>          | <u>\$967,526</u>                           | <u>\$1,088,366</u>         | <u>\$3,524,418</u> |

**TRANSFER TO / FROM OTHER FUNDS:**

Transfer to / from other funds at June 30, 2015 consist of the following:

| Transfer from           | Transfer to        |                             |                            | Total              |
|-------------------------|--------------------|-----------------------------|----------------------------|--------------------|
|                         | General fund       | Debt services               | Other governmental<br>fund |                    |
| General fund            |                    | \$635,492                   | \$1,243,452                | \$1,878,944        |
| Debt service fund       | \$ 626,347         |                             |                            | 626,347            |
| Other governmental fund | <u>391,113</u>     | <u>                    </u> | <u>46,008</u>              | <u>437,121</u>     |
| Total                   | <u>\$1,017,460</u> | <u>\$635,492</u>            | <u>\$1,289,460</u>         | <u>\$2,942,412</u> |

**11. RETIREMENT SYSTEM**

**Defined Benefit Pension Plan**

The Employee's Retirement System of the Government of the Commonwealth Puerto Rico (ERS) is the administrator of a cost-sharing multiple-employer pension plan administered by the Puerto Rico Government Employee and Judiciary Retirement System Administration. The ERS was created by the Act 447, approved on May 15, 1951, and became effective on January 1, 1952. ERS covers all regular employees of the Commonwealth of Puerto Rico and its instrumentality and of municipalities and components units not covered by their own retirement systems.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**11. RETIREMENT SYSTEM (CONTINUED)**

**Defined Benefit Pension Plan (Continued)**

Participation is mandatory except for members of the Legislature, Government Secretaries, Head of Agencies and Public Instrumentality, Assistants of the Governor, the Comptroller of the Puerto Rico, Gubernatorial Board and Committee appointees and Experimental Service Station employees. ERS provides retirement, death and disability benefits. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Retirement benefits depend upon age at retirement and number of years of credited service. Benefits vest after ten years of plan participation.

As of June 30, 2013, the ERS has an unfunded actuarial accrued liability (UAAL) of approximately \$22,981 million, representing a 3.1% funding ratio. In the opinion of management and based on information prepared by consulting actuaries, it is estimated that starting in fiscal year 2015, the ERS's assets will be less than its obligations (including bonds payable but excluding its UAAL) resulting in a deficit net position. In addition, annual cash flow estimates for the foreseeable future are presently estimated to continue to reduce the net position unless other measures are taken. Future employer contributions have been pledged for the payment of debt service, consequently further depletion of ERS's assets could result in the inability to pay benefits.

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

To improve the liquidity and solvency of the ERS, the Commonwealth enacted Act No. 32 of June 25, 2014, which provides for incremental annual contributions from the Commonwealth General Fund beginning in fiscal year 2014 and up to the fiscal year 2033. This additional contribution will be determined annually based on actuarial studies to be performed by the ERS's actuaries. And appropriation for such additional contribution of approximately \$120 million was included in the Commonwealth's budget for the fiscal year 2014. However, as a result of budgetary constraints at the present time management believes that approximately \$90 million of this amount will not be collected as expected during fiscal year 2014. Further, this additional contribution was reduced to \$28.2 million for the Commonwealth's proposed budget for the fiscal year 2015.

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

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**11. RETIREMENT SYSTEM (CONTINUED)**

**Defined Benefit Pension Plan (Continued)**

To address these issues, the ERS and the Commonwealth, with the assistance of the ERS external consulting actuaries, concluded that, in addition to other measures, annual increases in the employers' contribution rate would be required to fully fund pensions, without having to liquidate the ERS investment portfolio. Accordingly, on July 6, 2011, the Commonwealth enacted Act No. 116, increasing the employers' contributions rate from 9.275% to 10.275% of employee compensation for fiscal year 2011-2012, an additional 1% annually for each of the next four years, and 1.25% annually for each of the five years thereafter, reaching an aggregate contribution rate of 20.525% effective July 1, 2020.

Furthermore, on April 4, 2014, the Governor of Puerto Rico signed into law Act No. 3 of 2014, which represents a comprehensive reform of the ERS. Act No. 3 became effective on July 1 2014 and amended the provisions of the different benefit structures under the ERS, including, but not limited to, the following:

1. For active participants of the contributory defined benefit programs under Act No. 447 of 1951 and Act No. 1 of 1990, all retirement benefits accrued through June 30, 2014 were frozen, and thereafter, all future benefits will accrue under the defined contribution formula used for System 2000 participants, and will be paid at retirement through a lifetime annuity.
2. Increased the minimum pension for current retirees from \$400 to \$500 per month.
3. The retirement age for Act No. 447 participants will be gradually increased from age 58 to age 61.
4. The retirement age for active System 2000 participants will be gradually increased from age 60 to age 65.
5. Transitioning active participants under Act No. 1 and Act No. 447 to a defined contribution plan similar to System 2000.
6. Eliminated the "merit annuity" available to participants who joined the ERS prior to April 1, 1990.
7. The retirement age for new employees was increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
8. The employee contribution rate was increased from 8.275% to 10%.
9. For System 2000 participants, the retirement benefits will no longer be paid as a lump sum distribution, instead, they will be paid through a lifetime annuity.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2015**

**11. RETIREMENT SYSTEM (CONTINUED)**

**Defined Benefit Pension Plan (Continued)**

10. Eliminated or reduced various retirement benefits previously granted by special laws, including Christmas and summer bonuses. The Christmas bonus payable to current retirees was reduced from \$600 to \$200 and was eliminated for future retirees. The summer bonus was eliminated. Resulting employer contribution savings will be contributed to the ERS.
11. Disability benefits were eliminated and substituted for a mandatory disability insurance policy.
12. Survivor benefits were modified.

The employer contributions to the above mentioned plans during the last three years ended June 30, 2015, 2014 and 2013 were as follows:

|      | <u>Employer</u> |
|------|-----------------|
| 2015 | \$130,212       |
| 2014 | 126,244         |
| 2013 | 147,300         |

Effective for fiscal year ended June 30, 2015, the GASB 68 requires that the Municipalities governmental-wide financial statements present the proportional net pension liability of the ERS. In addition, the GASB 68 required among other the following disclosures:

- A. Employer's proportionate share amount of collective net pension liability.
- B. Employer's proportionate percentage of collective net pension liability (including the basis on which it was determined) and change on its proportion since prior measurement debts.
- C. Significant assumption used to measure total pension liability, including inflation, salary changes, discounts rate and mortality.
- D. Measurement date of collective net pension liability and date of actuarial valuation on which the total liability is base.
- E. Information about plan fiduciary net position

Other information about the net pension liabilities should be disclosed as required supplemental information. ERS has not issued its financial statements since June 30, 2013. Accordingly, the required information is not available accounting the information is not disclosure in the Municipality's financial statements.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2015**

**11. RETIREMENT SYSTEM (CONTINUED)**

**Defined Benefit Pension Plan (Continued)**

The P.R. Retirement Plan Administration provides additional information of the ERS. They issue a public available financial report that includes financial statements and required supplementary information for ERS, as a component unit of the Commonwealth of Puerto Rico. The last financial statement was issued for fiscal year ended June 30, 2013. That report may be obtained by writing to the Administration at PO Box 42003, Minillas Station, San Juan, P.R. 00940.

**12. CONTINGENCIES**

**Claims and Judgments:**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures which may be disallowed by the grantor cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Municipality is defendant and or codefendant in several litigations arising out of the normal Municipality's operations. Most of the cases are covered by insurance. Management, after consultation with legal counsel is of the opinion that the ultimate liability, in excess of insurance coverage, if any, resulting from such pending litigations will not have a material adverse effect on the Municipality's financial position.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2015**

|   | GENERAL FUND               |                         |                       | VARIANCE<br>WITH FINAL BUDGET      |
|---|----------------------------|-------------------------|-----------------------|------------------------------------|
|   | <u>ORIGINAL<br/>BUDGET</u> | <u>FINAL<br/>BUDGET</u> | <u>ACTUAL</u>         | <u>FAVORABLE<br/>(UNFAVORABLE)</u> |
| <b>Revenues:</b>                                |                            |                         |                       |                                    |
| Taxes:  |                            |                         |                       |                                    |
| Property taxes                                  | \$ 965,957                 | \$ 965,957              | \$1,012,162           | \$ 46,205                          |
| Patents   | 369,341                    | 369,341                 | 335,347               | (33,994)                           |
| Sale tax  | 585,962                    | 585,062                 | 217,254               | (368,708)                          |
| Construction excise tax                         | 200,000                    | 200,000                 | 142,269               | (57,731)                           |
| Grants and entitlements                         | 6,074,317                  | 6,074,317               | 5,176,678             | (897,639)                          |
| Rent  | 57,000                     | 57,000                  | 49,345                | (7,655)                            |
| Licenses and permits                            | 4,600                      | 4,600                   | 5,940                 | 1,340                              |
| Other   | <u>443,521</u>             | <u>443,521</u>          | <u>2,114,162</u>      | <u>1,670,641</u>                   |
| <br>Total revenues                              | <br><u>8,700,698</u>       | <br><u>8,700,698</u>    | <br><u>9,053,157</u>  | <br><u>352,459</u>                 |
| <b>Expenditures:</b>                            |                            |                         |                       |                                    |
| General administration                          | 5,904,861                  | 5,904,861               | 5,322,496             | 582,365                            |
| Public safety                                   | 401,311                    | 401,311                 | 322,635               | 78,676                             |
| Culture, education, tourism and<br>recreational | 901,383                    | 901,383                 | 842,277               | 59,106                             |
| Public works                                    | <u>1,493,143</u>           | <u>1,493,143</u>        | <u>1,570,529</u>      | <u>(77,386)</u>                    |
| <br>Total expenditures                          | <br><u>8,700,698</u>       | <br><u>8,700,698</u>    | <br><u>8,057,937</u>  | <br><u>642,761</u>                 |
| <br><b>Excess of revenue over expenditures</b>  | <br><u>\$ _____</u>        | <br><u>\$ _____</u>     | <br><u>\$ 995,220</u> | <br><u>\$ 995,220</u>              |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
NOTES TO SCHEDULE OF BUDGETARY COMPARISON  
FOR THE YEAR ENDED JUNE 30, 2015**

**1. BUDGETS AND BUDGETARY ACCOUNTING**

The Municipality follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for special revenue funds because effective budgetary control is alternatively achieved through legal and contractual grant requirements provisions.
- 2) On or before May 15, the Mayor submits to the Municipal Legislative Body a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means for financing them.
- 3) Prior to June 13, the budget is legally enacted through passage of an ordinance.
- 4) The Municipal Legislative Body approves, by ordinance budget appropriations by functional basis. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Municipal Legislative Body.
- 5) Unused appropriations for the annual budgeted funds lapse at the end of the year.

The budget is prepared on the budgetary basis of accounting. The actual results of operations, presented in the Statement of Revenues and Expenditures – Budget and Actual General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The presentation of the budgetary data excludes other appropriations such as capital projects, debt service and special revenue funds because projects are funded on a multi-year nature, generally requiring several years to complete or effective budgetary control is alternatively achieved through general obligation bond indentures and legal and contractual grant agreement provisions. No legal budget is adopted for other than general fund.

**2. RECONCILIATION OF GAAP TO BUDGETARY BASIS**

Adjustments necessary to reconcile the revenues and expenditures of the General Fund at the end of the year, from the generally accepted accounting principles to budgetary basis, are as follows:

|  |                   |
|--|-------------------|
| Excess of revenues and other financing sources<br>over expenditures and other financial sources<br>generally accepted accounting principles (GAAP) | \$1,015,755       |
| Other adjustments to convert budgetary basis to GAAP   | <u>(60,535)</u>   |
| Excess of revenue over expenditures Budgetary Basis  | <u>\$ 955,220</u> |

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

|  | <u>CFDA<br/>NUMBER</u> | <u>EXPENDITURES</u> |
|--|------------------------|---------------------|
| <b><u>US Department of Housing and Urban<br/>Development</u></b> |                        |                     |
| Passed through:  |                        |                     |
| Municipal Service Administration:                                |                        |                     |
| Community Development Block Grant/ State Grant                   | 14.228                 | \$ 527,091          |
| Direct Program:  |                        |                     |
| Section 8 – Housing Choice Vouchers                              | 14.871                 | 247,558             |
| <b><u>US Department of Health and Human Services</u></b>         |                        |                     |
| Direct Program:  |                        |                     |
| Head Start   | 93.600                 | 980,160             |
| <b><u>US Department of Agriculture</u></b>                       |                        |                     |
| Passed through:  |                        |                     |
| Puerto Rico Department of Education:                             |                        |                     |
| Child and Adult Care Food Program                                | 10.558                 | 86,273              |
| <b><u>US Department of Home and Security</u></b>                 |                        |                     |
| Passed through:  |                        |                     |
| PR Office of Management and Budget (GAR):                        |                        |                     |
| Disaster Grant – Public Assistance                               | 97.036                 | <u>17,628</u>       |
|  |                        | <u>\$1,858,710</u>  |

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2015**

**1. BASIS OF PRESENTATION:**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Municipality of Adjuntas, Puerto Rico and is prepared on the modified accrual basis of accounting. Accordingly, amounts presented in the accompanying schedule agree to amounts presented in the basic financial statements.

**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**



# CARLOS R. DIAZ, CPA, PSC

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

To Honorable Mayor and  
Municipality Legislative Body  
Municipality of Adjuntas  
Adjuntas, Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Municipality of Adjuntas, Puerto Rico**, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise **Municipality of Adjuntas, Puerto Rico's** basic financial statements, and have issued our report thereon dated March 15, 2016. Others auditors audited the financial statements of Valle Verde Project, as described in our report on **Municipality of Adjuntas, Puerto Rico's** financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting of compliance and other matters that are reported on separately by those auditors.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Municipality of Adjuntas, Puerto Rico's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Municipality of Adjuntas, Puerto Rico's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Municipality of Adjuntas, Puerto Rico'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. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Finding 2015-1.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Municipality of Adjuntas, Puerto Rico'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned cost as items 2015-2.

#### **Purpose of this Report**

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

Marh 15, 2016  
Aguas Buenas, Puerto Rico

  
Carlos R. Díaz, CPA, PSC  
License No. 275  
Expire December 1, 2018

The stamp No. **E199130** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

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



**CARLOS R. DIAZ, CPA, PSC**

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

**To Honorable Mayor and  
Municipality Legislative Body  
Municipality of Adjuntas  
Adjuntas, Puerto Rico**

**Report on Compliance for Each Major Federal Program**

We have audited **Municipality of Adjuntas, Puerto Rico's** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of **Municipality of Adjuntas, Puerto Rico's** major federal programs for the year ended June 30, 2015. **Municipality of Adjuntas, Puerto Rico's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Municipality of Adjuntas, Puerto Rico's basic financial statements include the operations of the Valle Verde Project, which expensed \$ 890,026 in federal awards which is not included in the schedule during the year ended June 30, 2015. Our audit, described below, did not include the operations of Valle Verde Project because Municipality of Adjuntas, Puerto Rico engaged other auditors to perform an audit in accordance with OMB Circular A-133.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

#### ***Opinion on Each Major Federal Program***

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

#### **Report on Internal Control over Compliance**

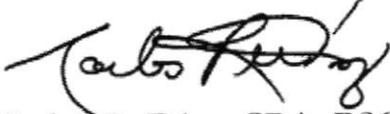
Management of **Municipality of Adjuntas, Puerto Rico** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Municipality of Adjuntas,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

March 15, 2016  
Aguas Buenas, Puerto Rico

  
Carlos R. Díaz, CPA, PSC  
License No. 275  
Expire December 1, 2018

The stamp No. **E199131** of the Puerto Rico Society of Certified Public Accountants was affixed to the original of this report.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued

Government with financial Statement

Qualified

Funds financial Statement

Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? \_\_\_yes    X\_no
- Significant deficiency (s) identified that is not considered a material weakness. X\_yes    \_\_\_no

Noncompliance material to financial statement noted? X\_yes    \_\_\_no

**Federal Awards**

Internal control over major programs:

- Material weakness (es) identified? \_\_\_yes    X\_no
- Significant deficiency (s) identified that are not considered to be material weakness (es) \_\_\_yes    X\_no

Type of auditor's report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133

\_\_\_yes    X\_no

Identification of major programs:

CFA Number(s)

Name of Federal Program

14.228

COMMUNITY DEVELOPMENT BLOCK GRANT

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Audit qualified as low-risk audited?

X\_yes    \_\_\_no

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION II – FINANCIAL STATEMENT FINDING**

**Finding No. 2015-1**

**Accounting system**

**Condition:**

The Municipality has not established accounting procedures, control and records necessary to provide accurate information to prepare the financial statements in conformity with generally accepted accounting principles.

During our examination we noted the following matters:

- a) The bank reconciliations are not compared to general ledger and differences noted, if any, are not promptly adjusted.
- b) The accounting system did not recognize most of the payroll transactions. Such transactions are recognized manually at year end.
- c) The manually prepared checks are not recorded in the computerized system.
- d) The financial statements were prepared from worksheets manually prepared.

**Criteria:**

The Sections 8.010 (a), (c) and (d) of the Law 81 state that the accounting system establishes by the Municipality should be designed to present complete and accurate information of the result of operations, adequate control and accountability of all the funds necessary for the administration of the Municipality. The Law also states that the procedures to collect and deposit municipal funds and control the municipal property, should have adequate controls that prevent the commitment of irregularities and permit that if such irregularities are committed, the responsibility for such irregularities be established.

**Effect:**

The occurrence of these conditions may result that all transactions are not recorded in the financial statements and that any error could not be detected promptly.

**Recommendation:**

We recommend that the Municipality establishes an adequate accounting system to ascertain that all transactions are properly recorded.

**COMMONWEALTH OF PUERTO RICO**  
**MUNICIPALITY OF ADJUNTAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION II - FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2015-02**

**Accounting system**

**Condition**

The Municipality's financial statements do not include such adjustments and disclosures require by GASB – 68.

**Criteria**

GASB 68 requires that the pension expenses, as well as deferred outflows of resources and deferred inflows of resources related to pension be recognized for employer's proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate share should be determined using the employer's proportion of the collective net pension liability.

**Effect**

The Municipality's financial statements are not presented in accordance with generally accepted in the United States of America.

**Recommendation**

The Municipality should adjust its financial statements to included such adjustments required by accounting principle generally accepted in the United States of America.

**COMMONWEALTH OF PUERTO RICO  
MUNICIPALITY OF ADJUNTAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015**

**SECTION III. - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

NONE